



# **ALFRED NZO**

**DISTRICT MUNICIPALITY**

Alfred Nzo District Municipality  
Financial statements  
for the year ended 30 June 2017

## General Information

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**Mayoral committee**

Executive Mayor

S Mehlomakulu  
S A Sello ( Deputy Executive Mayor)  
P T Sobuthongo ( Speaker)  
B N Tobo ( Chief Whip)  
K J Bosman- Magangana  
S Kulu  
P N Mankahla  
P A Mohale  
N Msokana  
N Nkula  
N N Nqoko  
M M Twabu ( MPAC Chairperson)

Councillors

B Betwayo  
N Bongwana  
S A N Cekeshe  
N Cwele  
H N Dandala  
S S Dangisa  
N T Langa  
N Langasiki  
W P Leballo  
L S Maqhashalala  
F Mbuyelwa  
L G Mcambalala  
M Mdolo  
Z Mhlwazi  
M Mkhandiso  
T P Motjope  
B L Mzimkhulu  
N L Ndamase  
V Ngesi  
N Njobe  
N B Nkomo  
L L Nqatsha  
C L Nxesi  
K S Phangwa  
W B Potwana  
F P Sontsi  
E Voko  
N F Sobazile

**Grading of local authority**

Grade 4

**Chief Finance Officer (CFO)**

U Mahlasela

**Accounting Officer**

Z H Sikhundla

**Registered office**

Erf 1400  
Ntsizwa Street  
Mount Ayliff

## **General Information**

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|                         |   |
|-------------------------|---|
|                         | 4735  |
| <b>Business address</b> | Erf 1400<br>Ntsizwa Street<br>Mt Ayliff<br>4735 |
| <b>Postal address</b>   | Private Bag X511<br>Mount Ayliff<br>4735        |
| <b>Bankers</b>          | First National Bank                             |
| <b>Auditors</b>         | Auditor General of South Africa                 |

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### Abbreviations

|         |  |
|---------|--|
| COID    | Compensation for Occupational Injuries and Diseases                |
| CRR     | Capital Replacement Reserve  |
| DBSA    | Development Bank of South Africa                                   |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP    | Generally Recognised Accounting Practice                           |
| GAMAP   | Generally Accepted Municipal Accounting Practice                   |
| HDF     | Housing Development Fund   |
| IAS     | International Accounting Standards                                 |
| IMFO    | Institute of Municipal Finance Officers                            |
| IPSAS   | International Public Sector Accounting Standards                   |
| ME's    | Municipal Entities   |
| MEC     | Member of the Executive Council                                    |
| MFMA    | Municipal Finance Management Act                                   |
| MIG     | Municipal Infrastructure Grant (Previously CMIP)                   |

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely dependent on the government for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's audit committee.

The audit committee is responsible for independently reviewing and reporting on the municipality's financial statements.

The financial statements set out on pages 6 to 72, which have been prepared on the going concern basis, were tabled to the council by accounting officer on 31 August 2017 and were signed on its behalf by:



**Z H Sikhundla**  
**Accounting Officer**

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2017.

### **1. Review of activities**

#### **Main business and operations**

The municipality is engaged in and operates principally in the Nzo District of South Africa .

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 331,021,771 (2016): surplus R 358,481,303),

### **2. Going concern**

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **3. Subsequent events**

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### **4. Corporate governance**

#### **General**

The Accounting Officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Accounting Officer supports the highest standards of corporate governance and the ongoing development of best practice.

### **5. Interest in controlled entities**

| Name of controlled entity     | Country of incorporation | Shareholding % |
|-------------------------------|--------------------------|----------------|
| Alfred Nzo Development Agency | Republic of South Africa | 100            |

Details of the municipality's investment in controlled entities are set out in note 6.

**Alfred Nzo District Municipality**  
Financial Statements for the year ended 30 June 2017

**Statement of Financial Position as at 30 June 2017**

| Figures in Rand                            | Note(s) | 2017                 | 2016<br>Restated*    |
|--|---------|----------------------|----------------------|
| <b>Assets</b>                              |         |                      |                      |
| Current Assets                             |         |                      |                      |
| Inventories                                | 11      | 8,139,021            | 5,548,780            |
| Receivables from exchange transactions     | 12      | 22,148,771           | 17,010,109           |
| Receivables from non-exchange transactions | 13      | 1,053,251            | 1,078,737            |
| VAT receivable                             | 14      | 26,111,338           | 6,306,229            |
| Cash and cash equivalents                  | 15      | 9,893,610            | 36,369,344           |
|  |         | <b>67,345,991</b>    | <b>66,313,199</b>    |
| Non-Current Assets                         |         |                      |                      |
| Property, plant and equipment              | 3       | 3,173,322,407        | 2,810,017,084        |
| Intangible assets                          | 4       | 2,862,383            | 3,499,013            |
| Heritage assets                            | 5       | 131,100              | 131,100              |
| Investments in controlled entities         | 6       | 100                  | 100                  |
| Long Term Receivables                      | 7       | 244,496              | 177,002              |
| Investments                                | 8       | 6,615,159            | 38,071,818           |
|  |         | <b>3,183,175,645</b> | <b>2,851,896,117</b> |
| Non-Current Assets                         |         | 3,183,175,645        | 2,851,896,117        |
| Current Assets                             |         | 67,345,991           | 66,313,199           |
| <b>Total Assets</b>                        |         | <b>3,250,521,636</b> | <b>2,918,209,316</b> |
| <b>Liabilities</b>                         |         |                      |                      |
| Current Liabilities                        |         |                      |                      |
| Finance lease obligation                   | 16      | 8,205,675            | 10,465,535           |
| Operating lease liability                  | 9       | 121,696              | 45,761               |
| Payables from exchange transactions        | 21      | 142,137,792          | 135,606,919          |
| VAT payable                                | 22      | 5,916,312            | -                    |
| Unspent conditional grants and receipts    | 17      | 405,121              | 7,898,762            |
| Provisions                                 | 18      | 23,138,329           | 15,525,230           |
| Current Portion of Long Term Loan          | 19      | 892,645              | 839,564              |
| Payables from Non Exchange Transactions    | 20      | 376,458              | 954,688              |
|  |         | <b>181,194,028</b>   | <b>171,336,459</b>   |
| Non-Current Liabilities                    |         |                      |                      |
| Finance lease obligation                   | 16      | -                    | 8,193,256            |
| Provisions                                 | 18      | 6,086,462            | 5,895,707            |
| Long Term Loan                             | 19      | 7,408,437            | 8,070,300            |
|  |         | <b>13,494,899</b>    | <b>22,159,263</b>    |
| Non-Current Liabilities                    |         | 13,494,899           | 22,159,263           |
| Current Liabilities                        |         | 181,194,028          | 171,336,459          |
| <b>Total Liabilities</b>                   |         | <b>194,688,927</b>   | <b>193,495,722</b>   |
| Assets                                     |         | 3,250,521,636        | 2,918,209,316        |
| Liabilities                                |         | (194,688,927)        | (193,495,722)        |
| <b>Net Assets</b>                          |         | <b>3,055,832,709</b> | <b>2,724,713,594</b> |
| Reserves                                   |         |                      |                      |
| Government Grant Reserve                   |         | -                    | 1,517,942,029        |
| Accumulated surplus                        |         | 3,055,832,709        | 1,206,771,565        |
| <b>Total Net Assets</b>                    |         | <b>3,055,832,709</b> | <b>2,724,713,594</b> |

\* See Note 47

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

| Figures in Rand   | Note(s) | 2017                 | 2016<br>Restated*    |
|---|---------|----------------------|----------------------|
| <b>Revenue</b>  |         |                      |                      |
| <b>Revenue from exchange transactions</b>                   |         |                      |                      |
| Service charges   | 24      | 14,745,947           | 25,168,337           |
| Rental of facilities and equipment                          | 25      | 433,587              | 233,981              |
| Agency services   |         | 26,323               | 19,915               |
| Other income  | 27      | 2,171,278            | 4,243,442            |
| Interest received   | 28      | 17,847,268           | 10,154,811           |
| <b>Total revenue from exchange transactions</b>             |         | <b>35,224,403</b>    | <b>39,820,486</b>    |
| <b>Revenue from non-exchange transactions</b>               |         |                      |                      |
| <b>Transfer revenue</b>                                     |         |                      |                      |
| Government grants and subsidies                             | 30      | 957,611,832          | 903,403,357          |
| Public contributions and donations                          | 31      | -                    | 1,430,028            |
| <b>Total revenue from non-exchange transactions</b>         |         | <b>957,611,832</b>   | <b>904,833,385</b>   |
|   |         | 35,224,403           | 39,820,486           |
|   |         | 957,611,832          | 904,833,385          |
| <b>Total revenue</b>  | 23      | <b>992,836,235</b>   | <b>944,653,871</b>   |
| <b>Expenditure</b>  |         |                      |                      |
| Employee related costs                                      | 32      | (222,606,790)        | (198,053,860)        |
| Remuneration of councillors                                 | 33      | (8,804,757)          | (8,687,645)          |
| Litigation expenditure                                      | 34      | (2,817,114)          | (14,839,908)         |
| Depreciation and amortisation                               | 35      | (65,905,379)         | (58,805,337)         |
| Finance costs   | 36      | (2,518,719)          | (6,426,807)          |
| Lease rentals on operating lease                            |         | (2,794,513)          | (232,310)            |
| Debt Impairment   | 37      | (6,032,348)          | (22,128,617)         |
| Repairs and maintenance                                     |         | (66,983,224)         | (44,528,987)         |
| Bulk purchases  | 38      | (6,447,742)          | (5,037,621)          |
| Contracted services   | 39      | (54,636,334)         | (31,064,858)         |
| Transfers and Subsidies                                     | 29      | (23,668,019)         | (43,918,404)         |
| General Expenses  | 40      | (197,672,727)        | (120,081,125)        |
| <b>Total expenditure</b>                                    |         | <b>(660,887,666)</b> | <b>(553,805,479)</b> |
|   |         | -                    | -                    |
| Total revenue   |         | 992,836,235          | 944,653,871          |
| Total expenditure   |         | (660,887,666)        | (553,805,479)        |
| <b>Operating surplus</b>                                    |         | <b>331,948,569</b>   | <b>390,848,392</b>   |
| Gain / ( Loss) on disposal of assets                        |         | -                    | (4,408,099)          |
| Actuarial gains/losses                                      | 10      | 184,738              | 67,314               |
| Loss on non-current assets held for sale or disposal groups |         | (1,111,536)          | -                    |
|   |         | <b>(926,798)</b>     | <b>(4,340,785)</b>   |
| Operating surplus/deficit                                   |         | (926,798)            | (4,340,785)          |
| Surplus before taxation                                     |         | 331,021,771          | 386,507,607          |
| Taxation  |         | -                    | -                    |
| <b>Surplus for the year</b>                                 |         | <b>331,021,771</b>   | <b>386,507,607</b>   |

\* See Note 47



**Alfred Nzo District Municipality**  
Financial Statements for the year ended 30 June 2017

**Statement of Changes in Net Assets**

| Figures in Rand                                       | Government<br>grant reserve | Accumulated<br>surplus | Total net<br>assets  |
|---|-----------------------------|------------------------|----------------------|
| Opening balance as previously reported                | 1,517,942,029               | 835,318,694            | 2,353,260,723        |
| <b>Balance at 01 July 2015 as restated*</b>           | <b>1,517,942,029</b>        | <b>835,318,694</b>     | <b>2,353,260,723</b> |
| Changes in net assets                                 |                             |                        |                      |
| Prior period error                                    | -                           | (15,054,736)           | (15,054,736)         |
| Net income (losses) recognised directly in net assets | -                           | (15,054,736)           | (15,054,736)         |
| Surplus for the year                                  | -                           | 386,507,607            | 386,507,607          |
| Total recognised income and expenses for the year     | -                           | 371,452,871            | 371,452,871          |
| Total changes   | -                           | 371,452,871            | 371,452,871          |
| <b>Restated* Balance at 01 July 2016</b>              | <b>1,517,942,029</b>        | <b>1,206,771,563</b>   | <b>2,724,713,592</b> |
| Changes in net assets                                 |                             |                        |                      |
| Prior period error                                    | -                           | 97,346                 | 97,346               |
| Transfer of Government Reserve                        | -                           | 1,517,942,029          | 1,517,942,029        |
| Net income (losses) recognised directly in net assets | -                           | 1,518,039,375          | 1,518,039,375        |
| Surplus for the year                                  | -                           | 331,021,771            | 331,021,771          |
| Total recognised income and expenses for the year     | -                           | 1,849,061,146          | 1,849,061,146        |
| Total changes   | -                           | 1,849,061,146          | 1,849,061,146        |
| <b>Balance at 30 June 2017</b>                        | <b>-</b>                    | <b>3,055,832,709</b>   | <b>3,055,832,709</b> |

Note(s)

\* See Note 47

**Alfred Nzo District Municipality**  
Financial Statements for the year ended 30 June 2017

**Cash Flow Statement**

| Figures in Rand   | Note(s) | 2017                 | 2016<br>Restated*    |
|---|---------|----------------------|----------------------|
| <b>Cash flows from operating activities</b>                 |         |                      |                      |
| <b>Receipts</b>   |         |                      |                      |
| Donations Received  |         | -                    | 1,430,028            |
| Service Charges   |         | 5,812,038            | 36,229,785           |
| Other Receipts  |         | 2,624,231            | 4,530,774            |
| Interest Income   |         | 17,847,268           | 10,154,811           |
| Government Grants and Services                              |         | 950,118,193          | 905,582,051          |
|   |         | 976,401,730          | 957,927,449          |
| <b>Payments</b>   |         |                      |                      |
| Employee costs  |         | (239,739,243)        | (196,512,959)        |
| Suppliers   |         | (334,626,028)        | (279,234,958)        |
| Remuneration to Councillors                                 |         | (8,917,832)          | (8,687,646)          |
| Finance Costs   |         | (2,518,720)          | (6,426,806)          |
|   |         | (585,801,823)        | (490,862,369)        |
| Total receipts  |         | 976,401,730          | 957,927,449          |
| Total payments  |         | (585,801,823)        | (490,862,369)        |
| <b>Net cash flows from operating activities</b>             | 42      | <b>390,599,907</b>   | <b>467,065,080</b>   |
| <b>Cash flows from investing activities</b>                 |         |                      |                      |
| Purchase of moveable and immovable assets                   | 3       | (417,974,822)        | (490,770,660)        |
| Proceeds from sale of property, plant and equipment         | 3       | (1,666,627)          | -                    |
| Purchase of other intangible assets                         | 4       | -                    | (253,437)            |
| Increase in Investments                                     |         | 31,456,659           | (1,787,525)          |
| <b>Net cash flows from investing activities</b>             |         | <b>(406,032,058)</b> | <b>(502,966,433)</b> |
| <b>Cash flows from financing activities</b>                 |         |                      |                      |
| Movement in long term loan                                  |         | (591,857)            | (662,256)            |
| Net finance lease liability (repaid)                        |         | (10,451,726)         | (889,256)            |
| <b>Net cash flows from financing activities</b>             |         | <b>(11,043,583)</b>  | <b>(1,551,512)</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | <b>(26,475,734)</b>  | <b>(37,452,865)</b>  |
| Cash and cash equivalents at the beginning of the year      |         | 36,369,344           | 73,822,209           |
| <b>Cash and cash equivalents at the end of the year</b>     | 15      | <b>9,893,610</b>     | <b>36,369,344</b>    |

\* See Note 47

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|  | Approved budget      | Adjustments          | Final Budget         | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|----------------------|----------------------|------------------------------------|--|-----------|
| Figures in Rand  |                      |                      |                      |                                    |  |           |
| <b>Statement of Financial Performance</b>                            |                      |                      |                      |                                    |  |           |
| <b>Revenue</b>   |                      |                      |                      |                                    |  |           |
| <b>Revenue from exchange transactions</b>                            |                      |                      |                      |                                    |  |           |
| Service charges  | 28,509,000           | (9,027,360)          | <b>19,481,640</b>    | 14,745,947                         | <b>(4,735,693)</b>                         | n)        |
| Rental of facilities and equipment                                   | 329,920              | (198,825)            | <b>131,095</b>       | 433,587                            | <b>302,492</b>                             | m)        |
| Agency services  | -                    | -                    | -                    | 26,323                             | <b>26,323</b>                              | j)        |
| Other Income   | 1,001,770,000        | (937,777,264)        | <b>63,992,736</b>    | 2,171,278                          | <b>(61,821,458)</b>                        | l)        |
| Interest received  | 8,000,000            | -                    | <b>8,000,000</b>     | 17,847,268                         | <b>9,847,268</b>                           | k)        |
| <b>Total revenue (excluding capital transfers and contributions)</b> | <b>1,038,608,920</b> | <b>(947,003,449)</b> | <b>91,605,471</b>    | <b>35,224,403</b>                  | <b>(56,381,068)</b>                        |           |
| <b>Revenue from non-exchange transactions</b>                        |                      |                      |                      |                                    |  |           |
| <b>Transfer revenue</b>  |                      |                      |                      |                                    |  |           |
| Government grants & subsidies  | 1,104,428,000        | 35,405,000           | <b>1,139,833,000</b> | 957,611,832                        | <b>(182,221,168)</b>                       | o)        |
| Public contributions and donations                                   | -                    | -                    | -                    | -                                  | -  |           |
| <b>Total revenue from non-exchange transactions</b>                  | <b>1,104,428,000</b> | <b>35,405,000</b>    | <b>1,139,833,000</b> | <b>957,611,832</b>                 | <b>(182,221,168)</b>                       |           |
| Total revenue from exchange transactions'                            | 1,038,608,920        | (947,003,449)        | <b>91,605,471</b>    | 35,224,403                         | <b>(56,381,068)</b>                        |           |
| Total revenue from non-exchange transactions'                        | 1,104,428,000        | 35,405,000           | <b>1,139,833,000</b> | 957,611,832                        | <b>(182,221,168)</b>                       |           |
| <b>Total revenue</b>   | <b>2,143,036,920</b> | <b>(911,598,449)</b> | <b>1,231,438,471</b> | <b>992,836,235</b>                 | <b>(238,602,236)</b>                       |           |
| <b>Expenditure</b>   |                      |                      |                      |                                    |  |           |
| Employee Cost  | (213,766,586)        | (9,477,428)          | <b>(223,244,014)</b> | (222,606,790)                      | <b>637,224</b>                             |           |
| Remuneration of councillors  | (9,293,963)          | (46,314)             | <b>(9,340,277)</b>   | (8,804,757)                        | <b>535,520</b>                             |           |
| Litigation expenditure   | (2,000,000)          | -                    | <b>(2,000,000)</b>   | (2,817,114)                        | <b>(817,114)</b>                           | b)        |
| Depreciation and amortisation  | (55,000,000)         | -                    | <b>(55,000,000)</b>  | (65,905,379)                       | <b>(10,905,379)</b>                        | d)        |
| Finance costs  | (36,369,175)         | 35,408,929           | <b>(960,246)</b>     | (2,518,719)                        | <b>(1,558,473)</b>                         | e)        |
| Lease rentals on operating lease                                     | -                    | -                    | -                    | (2,794,513)                        | <b>(2,794,513)</b>                         | f)        |
| Debt Impairment  | (20,000,000)         | -                    | <b>(20,000,000)</b>  | (6,032,348)                        | <b>13,967,652</b>                          | a)        |
| Repairs and maintenance  | (41,331,901)         | (5,500,000)          | <b>(46,831,901)</b>  | (66,983,224)                       | <b>(20,151,323)</b>                        | h)        |
| Bulk purchases   | (4,500,000)          | (2,000,000)          | <b>(6,500,000)</b>   | (6,447,742)                        | <b>52,258</b>                              |           |
| Contracted Services  | -                    | -                    | -                    | (54,636,334)                       | <b>(54,636,334)</b>                        | c)        |
| Transfers and Subsidies  | (20,000,000)         | -                    | <b>(20,000,000)</b>  | (23,668,019)                       | <b>(3,668,019)</b>                         | i)        |
| General Expenses   | (279,381,399)        | 3,734,951            | <b>(275,646,448)</b> | (197,672,727)                      | <b>77,973,721</b>                          | g)        |
| <b>Total expenditure</b>   | <b>(681,643,024)</b> | <b>22,120,138</b>    | <b>(659,522,886)</b> | <b>(660,887,666)</b>               | <b>(1,364,780)</b>                         |           |
|  | 2,143,036,920        | (911,598,449)        | <b>1,231,438,471</b> | 992,836,235                        | <b>(238,602,236)</b>                       |           |
|  | (681,643,024)        | 22,120,138           | <b>(659,522,886)</b> | (660,887,666)                      | <b>(1,364,780)</b>                         |           |
| <b>Operating surplus / (deficit)</b>                                 | <b>1,461,393,896</b> | <b>(889,478,311)</b> | <b>571,915,585</b>   | <b>331,948,569</b>                 | <b>(239,967,016)</b>                       |           |
| Actuarial gains/losses   | -                    | -                    | -                    | 184,738                            | <b>184,738</b>                             |           |
| Loss on non-current assets held for sale or disposal groups          | -                    | -                    | -                    | (1,111,536)                        | <b>(1,111,536)</b>                         |           |
|  | -                    | -                    | -                    | <b>(926,798)</b>                   | <b>(926,798)</b>                           |           |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|  | Approved budget      | Adjustments          | Final Budget         | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|----------------------|----------------------|------------------------------------|--|-----------|
| Figures in Rand  |                      |                      |                      |                                    |  |           |
|  | 1,461,393,896        | (889,478,311)        | <b>571,915,585</b>   | 331,948,569                        | <b>(239,967,016)</b>                       |           |
|  | -                    | -                    | -                    | (926,798)                          | <b>(926,798)</b>                           |           |
| <b>Surplus before Capex</b>                            | <b>1,461,393,896</b> | <b>(889,478,311)</b> | <b>571,915,585</b>   | <b>331,021,771</b>                 | <b>(240,893,814)</b>                       |           |
| Deficit before taxation                                | 1,461,393,896        | (889,478,311)        | <b>571,915,585</b>   | 331,021,771                        | <b>(240,893,814)</b>                       |           |
| Surplus  | -                    | -                    | -                    | -                                  | -  |           |
| <b>Surplus for the year from continuing operations</b> | <b>1,461,393,896</b> | <b>(889,478,311)</b> | <b>571,915,585</b>   | <b>331,021,771</b>                 | <b>(240,893,814)</b>                       |           |
| Capex  | (1,461,393,752)      | 889,478,167          | <b>(571,915,585)</b> | -                                  | <b>571,915,585</b>                         |           |
| <b>Surplus for the year from continuing operations</b> | <b>144</b>           | <b>(144)</b>         | <b>-</b>             | <b>331,021,771</b>                 | <b>331,021,771</b>                         |           |

Additional text

Budget explanations

- Bad debts - There was a data cleansing exercise which in its nature reduced the total debt thereby reducing the provision.
- Litigation - It was cumbersome to predict the expenditure on litigations as these are subjective to the specific legal activities.
- Contracted services - the budget for contracted services is included in the budget for other expenditure. The item is disclosed separately in order to comply with the GRAP statements.
- Depreciation - the variance is caused by the correction of prior year where projects were not capitalised whilst completed. It was impossible to predict the expenditure at budget adjustment stage.
- Finance Costs - variance is caused by the interest on finance lease for the leasing of trucks which was budgeted for under general expenses and disclosed separately as required by the GRAP standards. The budget reflected of R960 000 is exclusively for the finance costs of the DBSA loan.
- Lease rentals - there were trucks that were hired during the year.
- Other Expenditure - There is essentially no under expenditure as the variance is financing the contracted services as well as legal costs.
- Repairs and Maintenance - The major cause of the increase in maintenance is the delapidated infrastructure which causes high maintenance of valves and pipes.
- Grants and Subsidies - these include the donations that were made to the community by the office of the mayor wherein in terms of the budget they are budgeted under general expenditure and in financial statements are classified under grants and subsidies in terms of GRAP.
- Agency services - the municipality received commission on third party payments.
- Interest earned - Interest on investments is R8m and the rest is as a result of debtors discounting which is essentially a non cash item.
- Other Income - the other income included an amount of R61m that was categorised as reserves which were backed by non-cash items viz depreciation and provision for bad debts.
- Rental of Facilities - The facilities were hired more than expected as the budget was based on previous projections.
- Service Charges - The municipality engaged in a data cleansing exercise as a result billing was reduced.
- Government Grants - the variance is caused by the schedule 6(b) grant wherein the municipality gets portion of the grant not a full portion and the MSIG that was not transferred by Treasury. The equitable share was further reduced by R3.1m which was an unapproved rollover for the WSOG grant during the 2015/2016 financial year.

To Note: In terms of the budget the Litigation costs, Contracted services and Lease rentals are included under the general expenses and separated in terms of the AFS for disclosure purposes.

## **Accounting Policies**

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### **1. Presentation of Financial Statements**

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

#### **1.1 Going concern assumption**

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.2 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

## **Accounting Policies**

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### **1.2 Property, plant and equipment (continued)**

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

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| <b>Item</b>               | <b>Depreciation method</b> | <b>Average useful life</b> |
|---------------------------|----------------------------|----------------------------|
| Buildings                 | Straight line              | 20-40                      |
| Plant and Equipment       | Straight line              | 2-15                       |
| Furniture and Fittings    | Straight line              | 2-10                       |
| Motor Vehicles            | Straight line              | 4-10                       |
| Office Equipment          | Straight line              | 2-10                       |
| Infrastructure - Sewerage | Straight line              | 2-85                       |
| Infrastructure - Water    | Straight line              | 2-100                      |

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## Accounting Policies

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### 1.2 Property, plant and equipment (continued)

|                        |               |        |
|------------------------|---------------|--------|
| Infrastructure - Roads | Straight line | 10-100 |
| Bins and Containers    | Straight line | 5-15   |
| Computer Equipment     | Straight line | 2-10   |
| Emergency Equipment    | Straight line | 2-15   |
| Park Homes             | Straight line | 20-40  |
| Specialised Vehicles   | Straight line | 5-15   |

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.3 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

## Accounting Policies

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### 1.3 Intangible assets (continued)

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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| Item              | Depreciation method | Average useful life |
|-------------------|---------------------|---------------------|
| Computer Software | Straight line       | 2-5 years           |

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The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

### 1.4 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.



## **Accounting Policies**

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### **1.4 Heritage assets (continued)**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

### **Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

### **Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

### **Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

### **Impairment**

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

### **Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

## **Accounting Policies**

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### **1.4 Heritage assets (continued)**

#### **Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### **1.5 Investments in controlled entities**

### **1.6 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or

## **Accounting Policies**

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### **1.6 Financial instruments (continued)**

- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

## Accounting Policies

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### 1.6 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class  | Category                                   |
|--|--|
| Unlisted Investments                         | Financial asset measured at amortised cost |
| Investments in Fixed Deposits                | Financial asset measured at amortised cost |
| Long Term Receivables                        | Financial asset measured at amortised cost |
| Receivables from Exchange Transactions       | Financial asset measured at amortised cost |
| Cash and Cash Equivalents- notice depositors | Financial asset measured at amortised cost |
| Cash and Cash Equivalents- Call Deposits     | Financial asset measured at fair value     |
| Cash and Cash Equivalents                    | Financial asset measured at fair value     |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class                 | Category                                       |
|-----------------------|--|
| Long Term Liabilities | Financial liability measured at amortised cost |
| Payables              | Financial liability measured at amortised cost |
| Bank Overdraft        | Financial liability measured at amortised cost |

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

## **Accounting Policies**

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### **1.6 Financial instruments (continued)**

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### **Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectibility of financial assets**

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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### **1.6 Financial instruments (continued)**

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### **1.7 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

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### **1.7 Leases (continued)**

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.8 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.9 Impairment of cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

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### **1.9 Impairment of cash-generating assets (continued)**

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### **1.10 Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.



## **Accounting Policies**

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### **1.10 Employee benefits (continued)**

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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### **1.10 Employee benefits (continued)**

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

## **Accounting Policies**

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### **1.10 Employee benefits (continued)**

#### **Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

## **Accounting Policies**

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### **1.10 Employee benefits (continued)**

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### **1.11 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## **Accounting Policies**

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### **1.11 Provisions and contingencies (continued)**

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

## **Accounting Policies**

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### **1.11 Provisions and contingencies (continued)**

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### **1.12 Commitments**

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### **1.13 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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### **1.13 Revenue from exchange transactions (continued)**

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### **Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### **1.14 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.15 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.16 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.17 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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### **1.17 Unauthorised expenditure (continued)**

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.18 Irregular expenditure**

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.19 Budget information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2016 to 30/06/2017.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.



## **Accounting Policies**

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### **1.20 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.21 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### **1.22 Conditional grant and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

### 3. Property, plant and equipment

|  | 2017                 |   |                      | 2016                 |   |                      |
|--|----------------------|---|----------------------|----------------------|---|----------------------|
|  | Cost /<br>Valuation  | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value       | Cost /<br>Valuation  | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value       |
| Land                                   | 465,000              | -   | 465,000              | 465,000              | -   | 465,000              |
| Buildings                              | 58,026,897           | (20,370,349)  | 37,656,548           | 56,143,879           | (18,502,364)  | 37,641,515           |
| Finance leased assets                  | 34,671,197           | (6,522,492)   | 28,148,705           | 34,671,197           | (3,048,737)   | 31,622,460           |
| Infrastructure                         | 2,127,318,417        | (323,016,823)   | 1,804,301,594        | 1,720,204,146        | (269,674,932)   | 1,450,529,214        |
| Other property, plant and<br>equipment | 46,830,105           | (21,008,609)  | 25,821,496           | 42,035,913           | (14,423,491)  | 27,612,422           |
| Assets Under Construction              | 1,276,929,060        | -   | 1,276,929,060        | 1,262,146,473        | -   | 1,262,146,473        |
| <b>Total</b>                           | <b>3,544,240,676</b> | <b>(370,918,273)</b>  | <b>3,173,322,403</b> | <b>3,115,666,608</b> | <b>(305,649,524)</b>  | <b>2,810,017,084</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand 2017 2016

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2017

|  | Opening<br>balance   | Additions          | Disposals          | Transfers<br>received | Other<br>changes,<br>movements | Depreciation        | Total                |
|--|----------------------|--------------------|--------------------|-----------------------|--------------------------------|---------------------|----------------------|
| Land                                   | 465,000              | -                  | -                  | -                     | -                              | -                   | 465,000              |
| Buildings                              | 37,641,515           | 1,883,019          | -                  | -                     | -                              | (1,867,985)         | 37,656,549           |
| Finance Leased Assets                  | 31,622,460           | -                  | -                  | -                     | -                              | (3,473,755)         | 28,148,705           |
| Infrastructure                         | 1,452,672,104        | -                  | (159,458)          | 411,432,282           | (6,301,444)                    | (53,341,888)        | 1,804,301,599        |
| Other property, plant and<br>equipment | 27,612,422           | 7,385,690          | (2,662,747)        | 71,250                | -                              | (6,585,118)         | 25,821,497           |
| Assets Under Construction              | 1,262,146,473        | 430,592,468        | -                  | (411,432,282)         | (4,377,599)                    | -                   | 1,276,929,060        |
|  | <b>2,812,159,974</b> | <b>439,861,177</b> | <b>(2,822,205)</b> | <b>71,250</b>         | <b>(10,679,043)</b>            | <b>(65,268,746)</b> | <b>3,173,322,400</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand 2017 2016

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2016

|                                     | Opening balance      | Additions          | Disposals          | Transfers    | Adjustments        | Depreciation        | Impairment loss     |
|-------------------------------------|----------------------|--------------------|--------------------|--------------|--------------------|---------------------|---------------------|
| Land                                | -                    | 465,000            | -                  | -            | -                  | -                   | -                   |
| Buildings                           | 39,010,954           | -                  | -                  | -            | 453,256            | (1,822,695)         | -                   |
| Finance leased assets               | 24,119,347           | 10,936,810         | -                  | -            | (739,847)          | (2,693,850)         | -                   |
| Infrastructure                      | 1,400,446,933        | -                  | -                  | 99,909,899   | (2,134,067)        | (47,667,946)        | (25,600,000)        |
| Other property, plant and equipment | 32,663,269           | 3,184,650          | (1,890,087)        | -            | (325,254)          | (6,020,156)         | -                   |
| Assets Under Construction           | 860,773,965          | 501,282,407        | -                  | (99,909,899) | -                  | -                   | -                   |
|                                     | <b>2,357,014,468</b> | <b>515,868,867</b> | <b>(1,890,087)</b> | <b>-</b>     | <b>(2,745,912)</b> | <b>(58,204,647)</b> | <b>(25,600,000)</b> |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 4. Intangible assets

|                   | 2017             |   |                | 2016             |   |                |
|-------------------|------------------|---|----------------|------------------|---|----------------|
|                   | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 6,245,097        | (3,382,714)   | 2,862,383      | 6,245,097        | (2,746,084)   | 3,499,013      |

#### Reconciliation of intangible assets - 2017

|                   | Opening balance | Amortisation | Total     |
|-------------------|-----------------|--------------|-----------|
| Computer software | 3,499,014       | (636,631)    | 2,862,383 |

#### Reconciliation of intangible assets - 2016

|                   | Opening balance | Additions | Other changes, movements | Amortisation | Total     |
|-------------------|-----------------|-----------|--------------------------|--------------|-----------|
| Computer software | 3,460,110       | 253,437   | 381,393                  | (595,927)    | 3,499,013 |

### 5. Heritage assets

|   | 2017             |                               |                | 2016             |                               |                |
|---|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
|   | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Art Collections, antiquities and exhibits | 131,100          | -                             | 131,100        | 131,100          | -                             | 131,100        |

#### Reconciliation of heritage assets 2017

|   | Opening balance | Total   |
|---|-----------------|---------|
| Art collections, antiquities and exhibits | 131,100         | 131,100 |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

### 6. Investments in controlled entities

| Name of company               | Held by | %<br>holding<br>2017 | %<br>holding<br>2016 | Carrying<br>amount 2017 | Carrying<br>amount 2016 |
|-------------------------------|---------|----------------------|----------------------|-------------------------|-------------------------|
| Alfred Nzo Development Agency |         | 100.00 %             | 100.00 %             | 100                     | 100                     |

The carrying amounts of controlled entities are shown net of impairment losses.

### 7. Loans to employees

|                          |                |                |
|--------------------------|----------------|----------------|
| Long Term Receivables    | 1,088,862      | 1,021,368      |
| Provision for Impairment | (844,366)      | (844,366)      |
|                          | <b>244,496</b> | <b>177,002</b> |

The long term receivables relate to car loans issued to former employees. These loans were issued at 8% per annum for 4 years. These loans have been owing since 2004. The loans have been handed over to the lawyers for collection. The recoverability of these amounts is not certain hence the provision for impairment.

#### Long term receivables past due but not impaired

Long Term Receivables which are making payments even though they are past due are not considered to be impaired. At 30 June 2016, R 76 783 - (2015 R251 609)

The ageing of amounts past due but not impaired is as follows:

#### Long term receivables impaired

As of 30 June 2017, loans to shareholders of - (2016: -) were impaired and provided for.

The amount of the provision was - as of 30 June 2017 (2016: -).

### 8. Investments

#### Designated at fair value

|                                     |                  |                   |
|-------------------------------------|------------------|-------------------|
| Investec Long term investment       | -                | 32,160,159        |
| Nedbank Long term investment        | 6,615,159        | 5,911,659         |
|                                     | 6,615,159        | 5,911,659         |
|                                     | <b>6,615,159</b> | <b>38,071,818</b> |
|                                     | 6,615,159        | 38,071,818        |
|                                     | -                | -                 |
|                                     | -                | -                 |
| <b>Total other financial assets</b> | <b>6,615,159</b> | <b>38,071,818</b> |

#### Non-current assets

|                          |           |            |
|--------------------------|-----------|------------|
| Designated at fair value | 6,615,159 | 38,071,818 |
| Non-current assets       | 6,615,159 | 38,071,818 |
| Current assets           | -         | -          |

| Account         | Cashbook<br>2017 | Cashbook<br>2016  | Bank<br>Statement<br>2017 | Bank<br>Statement<br>2016 | Total             |
|-----------------|------------------|-------------------|---------------------------|---------------------------|-------------------|
| Nedbank Account | 6,615,159        | 5,911,659         | 6,615,159                 | 5,206,232                 | 24,348,209        |
| Investec        | -                | 32,160,159        | -                         | 32,160,159                | 64,320,318        |
|                 | <b>6,615,159</b> | <b>38,071,818</b> | <b>6,615,159</b>          | <b>37,366,391</b>         | <b>88,668,527</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand                           | 2017      | 2016     |
|---|-----------|----------|
| <b>9. Operating lease asset (accrual)</b> |           |          |
| Current liabilities                       | (121,696) | (45,761) |

The operating lease liability relates to leased office space at Matatiele and Cerdavile. The municipality also leases equipment for disaster management. The leases have annual escalation clauses and in line with GRAP 13 these have been straight-lined hence the lease liability.

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
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### 10. Information on post retirement benefits

#### Retirement benefit information

The municipality makes provision for post retirement benefits to eligible councillors and employees who belong to different pension schemes.

All councillors belong to Pension Fund for Municipal Councillors

Employees belong to a variety of approved Pension and Provident Funds as described below. These funds are governed by Pension Funds Act and include both defined benefit and defined contribution schemes. All these afore -mentioned schemes are multi employer plans and are subject to a tri annual or annual valuation.

#### DEFINED CONTRIBUTION SCHEMES

Currently the municipality is making contributions to 3 Defined contribution pension schemes namely Samwu National Provident Fund ( SANPF), Municipal Councillors Pension Fund ( MCPF), Cape Joint Pension Fund (CJPF)

GRAP 25 requires the disclosure of the amount recognised as an expense in the current financial year, reflecting the municipality's contribution to these defined contribution schemes for the year

#### DEFINED BENEFIT SCHEMES

The municipality currently participates in Municipal Employees Pension Fund (MEPF), Government Employees Pension Fund( GEPF) Natal Joint Municipal Pension Fund ( NJMPF), South African Local Authorities Pension Fund ( SALA).

All these are multi employer schemes and sufficient information is not available for the municipality to fully comply with the requirements of GRAP 25 with regards to defined benefits scheme. Plan assets as one portfolio and not notionally allocated to each participating employer, the plan financial assets are not constructed separately for each participating employer but rather in respect of the whole plan including all participating employees. Contribution rates do not usually vary by participating employers.

The standard requires disclosure of the amount recognised as an expense in the current financial year, reflecting the municipality's contribution paid to these defined benefit schemes in respect of this period.

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand  | 2017                | 2016                |
|--|---------------------|---------------------|
| <b>10. Information on post retirement benefits (continued)</b>               |                     |                     |
| <b>SAMWU (South African Municipal Workers Union) National Provident Fund</b> |                     |                     |
| <b>11. Inventories</b>   |                     |                     |
| Consumable stores  | 4,789,277           | 2,601,309           |
| Water  | 3,349,744           | 2,556,485           |
| Stationery   | -                   | 390,986             |
|  | <b>8,139,021</b>    | <b>5,548,780</b>    |
| <b>11.1 Water Losses</b>   |                     |                     |
| Water stock opening balance  | 206,060             | 205,846             |
| Produced ( volumes)  | 5,944,574           | 5,259,129           |
| Less Water sales   | (612,522)           | (1,201,064)         |
| Less Water Stock closing balance   | (207,460)           | (206,060)           |
|  | <b>5,330,652</b>    | <b>4,057,851</b>    |
| Cost of producing one cubic meter  | 16                  | 12                  |
| Water loss in rands  | 86,071,195          | 50,343,757          |
| Water loss as a % of produced  | 75                  | 77                  |
| <b>12. Receivables from exchange transactions</b>                            |                     |                     |
| Consumer debtors - Water   | 19,667,560          | 13,845,795          |
| Consumer debtors - Sewerage  | 434,767             | 2,100,763           |
| Consumer debtors - Other   | 2,046,444           | 1,063,551           |
|  | <b>22,148,771</b>   | <b>17,010,109</b>   |
| <b>Gross Amount</b>  |                     |                     |
| Water  | 117,098,211         | 102,311,060         |
| Sanitation   | 13,487,367          | 12,287,612          |
| Other  | 1,448,023           | 2,485,384           |
|  | <b>132,033,601</b>  | <b>117,084,056</b>  |
| <b>Less Impairment Provision</b>   |                     |                     |
| Water  | (79,686,869)        | (74,680,073)        |
| Sanitation   | (11,838,723)        | (10,172,726)        |
| Other  | (829,901)           | (1,470,346)         |
|  | <b>(92,355,493)</b> | <b>(86,323,145)</b> |
| <b>Net Balances</b>  |                     |                     |
| Water  | 37,411,342          | 27,630,987          |
| Sewerage   | 1,648,644           | 2,114,885           |
| Other  | 618,122             | 1,015,039           |
|  | <b>39,678,108</b>   | <b>30,760,911</b>   |



# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
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### 12. Receivables from exchange transactions (continued)

#### Water

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

|                      |                    |                    |
|----------------------|--------------------|--------------------|
| Current ( 0-30 days) | 1,631,025          | 2,419,890          |
| 31- 60 days          | 1,233,916          | 1,915,344          |
| 61-90 days           | 1,548,924          | 2,275,561          |
| 91-120 days          | 1,258,908          | 1,466,429          |
| >120 days            | 111,425,438        | 94,233,836         |
|                      | <b>117,098,211</b> | <b>102,311,060</b> |

#### Sewerage

|                    |                   |                   |
|--------------------|-------------------|-------------------|
| Current (0-30days) | 314,587           | 222,098           |
| 31-60 days         | 304,152           | 210,308           |
| 61-90 days         | 295,071           | 207,105           |
| 91- 120 days       | 291,518           | 204,615           |
| >120 days          | 12,282,040        | 11,443,485        |
|                    | <b>13,487,368</b> | <b>12,287,611</b> |

#### Other

|                     |                  |                  |
|---------------------|------------------|------------------|
| Current (0-30 days) | 29,890           | 960,650          |
| 31-60 days          | 29,980           | 29,890           |
| 61 - 90 days        | 29,980           | 29,890           |
| 91-120 days         | 29,980           | 4,880            |
| >120 days           | 1,328,464        | 1,460,076        |
|                     | <b>1,448,294</b> | <b>2,485,386</b> |

### Summary of debtors by customer classification

#### Consumers

|                           |                   |                  |
|---------------------------|-------------------|------------------|
| Current (0-30 days)       | 1,015,872         | 1,169,128        |
| 31 60 days                | 782,390           | 1,060,061        |
| 61- 90 days               | 979,119           | 1,000,207        |
| 91-120 days               | 894,479           | 885,768          |
| >120 days                 | 86,618,236        | 59,995,487       |
| Subtotal                  | 90,290,096        | 64,110,651       |
| Less Impairment Provision | (69,395,219)      | (62,309,901)     |
|                           | <b>20,894,877</b> | <b>1,800,750</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand   | 2017              | 2016              |
|---|-------------------|-------------------|
| <b>12. Receivables from exchange transactions (continued)</b>   |                   |                   |
| Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2017, - (2016: -) were past due but not impaired. |                   |                   |
| The ageing of amounts past due but not impaired is as follows:  |                   |                   |
| <b>Industrial/ Commercial</b>   |                   |                   |
| Current (0-30 days)   | 422,845           | 1,766,540         |
| 31-60 days  | 359,633           | 612,507           |
| 61-90 days  | 393,242           | 931,051           |
| 91-120 days   | 386,305           | 599,143           |
| >120 days   | 20,489,249        | 26,044,511        |
| Subtotal  | 22,051,274        | 29,953,752        |
| Less Impairment Provision   | (10,558,801)      | (9,624,034)       |
|   | <b>11,492,473</b> | <b>20,329,718</b> |
| <b>Churches</b>   |                   |                   |
| Current (0-30 days)   | 22,200            | 35,210            |
| 31-60 days  | 46,679            | 31,930            |
| 61-90 days  | 23,027            | 28,368            |
| 91-120 days   | 20,354            | 21,929            |
| >120 days   | 1,330,645         | 1,522,378         |
| Subtotal  | 1,442,905         | 1,639,815         |
| Less Impairment Allowance   | (1,388,968)       | (1,611,377)       |
|   | <b>53,937</b>     | <b>28,438</b>     |
| The carrying amount of trade and other receivables are denominated in the following currencies:   |                   |                   |
| <b>National and Provincial Government</b>   |                   |                   |
| Current ( 0-30 days)  | 514,584           | 631,761           |
| 31-60 days  | 379,256           | 451,045           |
| 61-90 days  | 478,497           | 552,931           |
| 91-120 days   | 279,178           | 169,083           |
| >120 days   | 15,182,433        | 19,575,019        |
| Subtotal  | 16,833,948        | 21,379,839        |
| Less Impairment provision   | (10,226,971)      | (12,777,834)      |
|   | <b>6,606,977</b>  | <b>8,602,005</b>  |
| <b>Other Sundry</b>   |                   |                   |
| >120 days   | 1,415,380         | 1,421,880         |
| Less allowance for impairment   | (785,536)         | (1,421,880)       |
|   | <b>629,844</b>    | <b>-</b>          |
| <b>Total</b>  |                   |                   |
| Current (0-30 days)   | 1,975,502         | 3,602,638         |
| 31-60 days  | 1,567,958         | 2,155,542         |
| 61-90 days  | 1,873,885         | 2,512,556         |
| 91-120 days   | 1,580,316         | 1,675,923         |
| >120 days   | 125,035,942       | 107,137,396       |
| Subtotal  | 132,033,603       | 117,084,055       |
| Less Impairment Provision   | (92,355,494)      | (86,323,145)      |
|   | <b>39,678,109</b> | <b>30,760,910</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand  | 2017              | 2016              |
|--|-------------------|-------------------|
| <b>12. Receivables from exchange transactions (continued)</b>                    |                   |                   |
| <b>Reconciliation of provision for impairment of trade and other receivables</b> |                   |                   |
| Opening balance  | 86,323,145        | 64,218,170        |
| Provision for impairment   | 6,032,348         | 22,104,975        |
|  | <b>92,355,493</b> | <b>86,323,145</b> |

### Consumer debtors pledged as security

No consumer debtors were pledged as security during the year.

### Credit quality of consumer receivables

The credit quality of consumer receivables from exchange transactions that are neither past due nor impaired can be assessed for indications of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

Consumers receivables are billed monthly. No interest is charged on consumer receivables. An imputed interest has been calculated to comply with the provisions of GRAP 9 paragraph 15 of revenue recognition. The municipality enforces its approved credit control policy to ensure the recovery of consumer receivables. Deposits are required to be paid for all water accounts opened.

None of the financial assets that are fully performing have been renegotiated in the last year.

### 13. Receivables from non-exchange transactions

|                |                  |                  |
|----------------|------------------|------------------|
| Staff Loans    | 1,053,251        | 1,053,251        |
| Sundry Debtors | -                | (1)              |
| Staff Debtors  | -                | 25,487           |
|                | <b>1,053,251</b> | <b>1,078,737</b> |

### Receivables from non-exchange transactions pledged as security

There no other receivables that have been pledged as security.

### Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from exchange transactions that are neither past due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors the receivables by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

None of the financial assets that were fully performing have been renegotiated in the last year.

### 14. VAT receivable

|     |            |           |
|-----|------------|-----------|
| VAT | 26,111,338 | 6,306,229 |
|-----|------------|-----------|

VAT is payable on a cash basis, once payment has been received from Debtors, then VAT is paid over to SARS.

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
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### 15. Cash and cash equivalents

Cash and cash equivalents consist of:

|                     |                  |                   |
|---------------------|------------------|-------------------|
| Short Term Deposits | 9,708,128        | 27,356,523        |
| Bank balances       | 185,482          | 9,012,821         |
|                     | <b>9,893,610</b> | <b>36,369,344</b> |

Short term deposits are investments with a maturity of less than 3 months and earn interests rates varying from 0% to 4.5% per annum.

### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

### The municipality had the following bank accounts

| Account number / description                      | Bank statement balances |                   |                   | Cash book balances |                   |                   |
|---|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
|   | 30 June 2017            | 30 June 2016      | 30 June 2015      | 30 June 2017       | 30 June 2016      | 30 June 2015      |
| Main Account - Current Account # 62024932974      | 14,182,983              | 9,184,689         | 2,604,072         | 185,482            | 9,012,821         | 2,596,148         |
| ANDM Main Account # 62474364553                   | 7,446,960               | 27,581            | 7,345,088         | 7,446,960          | 6,402,568         | 7,345,088         |
| Attic Account- Call Account: Account #62058639348 | 14,175                  | 212,653           | 718,506           | 14,175             | 212,653           | 718,506           |
| DBSA-MIG Front loading Account # 62425228732      | 2,528                   | 5,748             | 5,442             | 2,528              | 5,748             | 5,442             |
| Disaster Relief AC/Rural R.Asset #62454657720     | 517,655                 | 1,158,507         | 498,870           | 517,655            | 1,494,956         | 498,870           |
| Dwarf Capital Account #62027459371                | 25,424                  | 8,536,574         | 432,674           | 25,424             | 3,066,982         | 432,674           |
| EPWP Account # 62058637110                        | 61,633                  | 9,204             | 491,143           | 61,633             | 9,204             | 491,143           |
| FMG   | 5,068                   | 493,811           | 249,583           | 5,068              | 328,422           | 249,583           |
| MWIG Grant/LED Capacity Account# 62033034448      | 32,153                  | 2,060,879         | 99,612            | 32,153             | 2,060,879         | 99,612            |
| MIG Account # 62065368328                         | 99,564                  | 306,269           | 388,924           | 99,564             | 306,269           | 388,924           |
| MSIG Account # 62027455808                        | 4,859                   | 676,917           | 360,605           | 4,859              | 377,172           | 360,605           |
| Reserve Fund Account # 62027456559                | 505,800                 | 9,023,167         | 54,448,228        | 505,800            | 9,023,167         | 54,448,228        |
| Rural Housing & Development Account # 62027456559 | 3,467                   | 3,609,954         | 5,412,995         | 3,467              | 3,609,945         | 5,412,995         |
| Sport & Recreation Account # 62025448855          | 154,372                 | 7,043             | 7,641             | 154,372            | 7,043             | 7,641             |
| Thetha/ ISDG Account # 62093560136                | 834,470                 | 891,769           | 766,749           | 834,470            | 451,515           | 766,749           |
| <b>Total</b>                                      | <b>23,891,111</b>       | <b>36,204,765</b> | <b>73,830,132</b> | <b>9,893,610</b>   | <b>36,369,344</b> | <b>73,822,208</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand                                    | 2017             | 2016              |
|--|------------------|-------------------|
| <b>16. Finance lease obligation</b>                |                  |                   |
| <b>Minimum lease payments due</b>                  |                  |                   |
| - within one year                                  | 8,531,749        | 11,930,560        |
| - in second to fifth year inclusive                | -                | 8,531,749         |
|  | 8,531,749        | 20,462,309        |
| less: future finance charges                       | (338,493)        | (1,803,517)       |
| <b>Present value of minimum lease payments</b>     | <b>8,193,256</b> | <b>18,658,792</b> |
| <b>Present value of minimum lease payments due</b> |                  |                   |
| - within one year                                  | 8,193,256        | 10,465,536        |
| - in second to fifth year inclusive                | -                | 8,193,256         |
|  | <b>8,193,256</b> | <b>18,658,792</b> |
| Non-current liabilities                            | -                | 8,193,256         |
| Current liabilities                                | 8,205,675        | 10,465,535        |
|  | <b>8,205,675</b> | <b>18,658,791</b> |

The lease liability relates to motor vehicles acquired during the 2014/2015 and 2015/2016 financial years. The lease term is 32 months with effective interest rate 10.5%. The net book value as reported under note 3

The entity's obligations under finance leases are secured by the lessors charge over the leased assets.

### 17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

|  |                |                  |
|--|----------------|------------------|
| <b>Unspent conditional grants and receipts</b> |                |                  |
| Municipal Infrastructure Grant                 | -              | (1)              |
| Municipal Systems Implementation Grant         | (1)            | -                |
| Municipal Health Grant                         | -              | (1)              |
| WSOG   | -              | 3,934,635        |
| Infrastructure Skills Development Grant        | 405,122        | 1                |
| Regional Bulk Grant                            | -              | 2,636,874        |
| Rural Housing                                  | -              | 1,327,254        |
|  | <b>405,121</b> | <b>7,898,762</b> |

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited;

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 30 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

### 18. Provisions

#### Reconciliation of provisions - 2017

|                          | Opening Balance   | Additions        | Utilised during the year | Total             |
|--------------------------|-------------------|------------------|--------------------------|-------------------|
| Current Long Service     | 1,389,405         | (291,615)        | -                        | 1,097,790         |
| Leave Provision          | 10,365,683        | 7,572,549        | -                        | 17,938,232        |
| Non Current Long Service | 5,895,707         | 1,764,898        | (1,574,143)              | 6,086,462         |
| Bonus Provision          | 3,770,142         | 332,165          | -                        | 4,102,307         |
|                          | <b>21,420,937</b> | <b>9,377,997</b> | <b>(1,574,143)</b>       | <b>29,224,791</b> |

#### Reconciliation of provisions - 2016

|                          | Opening Balance   | Additions        | Utilised during the year | Total             |
|--------------------------|-------------------|------------------|--------------------------|-------------------|
| Current Long Service     | 752,728           | 636,677          | -                        | 1,389,405         |
| Bonus Provision          | 10,137,858        | 227,825          | -                        | 10,365,683        |
| Non Current Long Service | 5,956,482         | -                | (60,775)                 | 5,895,707         |
| Leave Pay Provision      | -                 | 3,770,142        | -                        | 3,770,142         |
|                          | <b>16,847,068</b> | <b>4,634,644</b> | <b>(60,775)</b>          | <b>21,420,937</b> |

|                         |                   |                   |
|-------------------------|-------------------|-------------------|
| Non-current liabilities | 6,086,462         | 5,895,707         |
| Current liabilities     | 23,138,329        | 15,525,230        |
|                         | <b>29,224,791</b> | <b>21,420,937</b> |

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long- service award is payable after five years of continuous service and every five years thereafter to employees. The provision is an estimate of the long service based on historical staff turnover. No other long service benefits are provided to employees. These provisions are made to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 438 ( 2016: 417) employees were eligible for Long Service Awards.

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

#### The principal assumptions used for the purpose of the actuarial valuations were as follows

|                                   |    |    |
|-----------------------------------|----|----|
| Discount rate %                   | 8  | 8  |
| Cost Inflation Rate %             | 6  | 7  |
| Net Effective Discount rate %     | 2  | 1  |
| Expected retirement age - Females | 60 | 60 |
| Expected retirement age- Males    | 65 | 65 |
|                                   | -  | -  |

#### Movements in the present value of the Defined Obligation were as follows:

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Balance at the beginning of the year | 7,285,112 | 6,709,210 |
| Current service cost                 | 914,964   | 895,264   |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand                                     | 2017             | 2016             |
|---|------------------|------------------|
| <b>18. Provisions (continued)</b>                   |                  |                  |
| Interest cost                                       | 558,319          | 500,680          |
| Benefits paid                                       | (1,389,405)      | (752,728)        |
| Acturial gains                                      | (184,738)        | (67,314)         |
| <b>Present Value of Fund at the end of the Year</b> | <b>7,184,252</b> | <b>7,285,112</b> |

The amounts recognised in the Statement of Financial Performance are as follows

|                      |                  |                  |
|----------------------|------------------|------------------|
| Current service cost | 914,964          | 895,264          |
| Interest cost        | 558,319          | 500,680          |
| Acturial gains       | (184,738)        | (67,314)         |
|                      | <b>1,288,545</b> | <b>1,328,630</b> |

The history of experienced adjustments is as follows

|   | 2017      | 2016      | 2015      | 2014    |
|---|-----------|-----------|-----------|---------|
| Present Value of Defined Value Obligation | 7,184,252 | 7,285,122 | 6,790,210 | 897,291 |

### 19. Long Term Loan

Annuity loan is with the Development Bank of South Africa over a period of 25 years and at an interest rate of 11.47% per annum.

The municipality did not default on any payment of its Long Term Liabilities. No terms for payment were re-negotiated by the municipality.

An Investment with Nedbank (Account Number 7881111046/0002) has been ceded as security for the loan Refer to Appendix for more detail on Long term liabilities.

#### Development Bank of South Africa

|                               |                  |                  |
|-------------------------------|------------------|------------------|
| Non Current at Amortised Cost | 7,408,437        | 8,070,300        |
| Current at Amortised cost     | 892,645          | 839,564          |
|                               | <b>8,301,082</b> | <b>8,909,864</b> |

### 20. Unallocated credits

Unallocated Credits relate to customer deposits made into the municipality bank account but can not be allocated to a particular customer as the identity of the customer is unknown

|             |                |                  |
|-------------|----------------|------------------|
| Staff Loan  | -              | 283,042          |
| Unallocated | 357,982        | 850,566          |
|             | <b>357,982</b> | <b>1,133,608</b> |

### 21. Payables from exchange transactions

|                               |                    |                    |
|-------------------------------|--------------------|--------------------|
| Trade creditors               | 2,449,726          | 8,515,270          |
| Accruals                      | 91,367,412         | 80,156,929         |
| Retentions                    | 48,389,576         | 43,102,691         |
| Third party payments          | (1,882)            | 4,930,455          |
| Alfred Nzo Development Agency | -                  | 2,715              |
| Vat accrual                   | -                  | (1,101,141)        |
| Other creditors               | 151,656            | -                  |
| Other Creditors               | (709,260)          | -                  |
| Debtors with credit balances  | 490,564            | -                  |
|                               | <b>142,137,792</b> | <b>135,606,919</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand   | 2017               | 2016               |
|---|--------------------|--------------------|
| <b>22. VAT payable</b>  |                    |                    |
| VAT Payables  | 5,916,312          | -                  |
| <b>23. Revenue</b>  |                    |                    |
| Service charges   | 14,745,947         | 25,168,337         |
| Rental of facilities and equipment  | 433,587            | 233,981            |
| Agency services   | 26,323             | 19,915             |
| Other income  | 2,171,278          | 4,243,442          |
| Interest received - investment  | 17,847,268         | 10,154,811         |
| Government grants and subsidies   | 957,611,832        | 903,403,357        |
| Public contributions and donations  | -                  | 1,430,028          |
|   | <b>992,836,235</b> | <b>944,653,871</b> |
| <b>The amount included in revenue arising from exchanges of goods or services are as follows:</b> |                    |                    |
| Service charges   | 14,745,947         | 25,168,337         |
| Rental of facilities and equipment  | 433,587            | 233,981            |
| Agency services   | 26,323             | 19,915             |
| Other income  | 2,171,278          | 4,243,442          |
| Interest received - investment  | 17,847,268         | 10,154,811         |
|   | <b>35,224,403</b>  | <b>39,820,486</b>  |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b>       |                    |                    |
| <b>Transfer revenue</b>   |                    |                    |
| Government grants & subsidies   | 957,611,832        | 903,403,357        |
| Public contributions and donations  | -                  | 1,430,028          |
|   | <b>957,611,832</b> | <b>904,833,385</b> |
| <b>24. Service charges</b>  |                    |                    |
| Water charges   | 12,523,909         | 23,638,871         |
| Sewerage and sanitation charges   | 2,222,038          | 1,529,466          |
|   | <b>14,745,947</b>  | <b>25,168,337</b>  |
| <b>25. Rental of facilities and equipment</b>   |                    |                    |
| Premises  | 433,587            | 232,577            |
| Venue hire  | -                  | 1,404              |
|   | <b>433,587</b>     | <b>233,981</b>     |
| Premises  | 433,587            | 233,981            |
| Garages and parking   | -                  | -                  |
| Facilities and equipment  | -                  | -                  |
| <b>26. Other revenue</b>  |                    |                    |
| Other income  | 2,171,278          | 4,243,442          |



# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand                    | 2017              | 2016              |
|------------------------------------|-------------------|-------------------|
| <b>27. Other income</b>            |                   |                   |
| Clearance fees                     | 42,620            | -                 |
| Fire Levy                          | 21,736            | 1,922,482         |
| Sundry Income                      | -                 | 268,204           |
| Tender Deposits                    | 322,278           | 394,657           |
| Sasseta                            | 1,522,707         | 1,388,499         |
| Insurance claim                    | 261,937           | 269,600           |
|                                    | <b>2,171,278</b>  | <b>4,243,442</b>  |
| <b>28. Interest revenue</b>        |                   |                   |
| <b>Interest revenue</b>            |                   |                   |
| Call deposits                      | 8,107,691         | 10,154,811        |
| Interest on overdue debtors        | 9,739,577         | -                 |
|                                    | <b>17,847,268</b> | <b>10,154,811</b> |
| <b>29. Transfers and subsidies</b> |                   |                   |
| <b>Other subsidies</b>             |                   |                   |
| Other Grants                       | 23,668,019        | 42,856,910        |
| Free Basic Services                | -                 | 1,061,494         |
|                                    | <b>23,668,019</b> | <b>43,918,404</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand                            | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>30. Government grants and subsidies</b> |                    |                    |
| <b>Operating grants</b>                    |                    |                    |
| Equitable Share                            | 387,046,635        | 364,950,000        |
| Finance Management Grant                   | 1,460,000          | 1,325,000          |
| Municipal Health                           | -                  | 634,847            |
| Municipal Water Infrastructure Grant       | 83,297,538         | 91,071,000         |
| Local Government SETA                      | 649,525            | 163,091            |
| Human Settlement Disaster Grant            | -                  | 500,000            |
| National Heritage Grant                    | 405,000            | -                  |
| Attic                                      | -                  | 145,874            |
| Energy Efficiency and Demand Management    | 8,000,000          | 13,000,000         |
| Rural Housing                              | 1,327,253          | 1,565,299          |
| Local Economic Development Capacity        | -                  | 300,000            |
| Municipal Systems Improvement Grant        | -                  | 930,000            |
| Expanded Public Works Programme            | 6,006,001          | 4,853,000          |
| Water Services Operation Grant             | 101,171,000        | 6,065,365          |
| Municipal Infrastructure Grant             | 361,497,000        | 384,744,000        |
| Regional Bulk Infrastructure Grant         | -                  | 27,088,241         |
| Department of Transport                    | 2,157,000          | 2,100,000          |
| Sports and Culture                         | -                  | 363,818            |
| Water Conservation and Demand Management   | -                  | 279,491            |
| Infrastructure Skills Development Grant    | 4,594,880          | 3,324,331          |
|  | <b>957,611,832</b> | <b>903,403,357</b> |
|  | 957,611,832        | 903,403,357        |
|  | -                  | -                  |

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and also to assist poor municipalities with financing their operational expenditure.

### Expanded Public Works Programme

|   |             |             |
|---|-------------|-------------|
| Current-year receipts                   | 6,006,000   | 4,853,000   |
| Conditions met - transferred to revenue | (6,006,000) | (4,853,000) |
|   | -           | -           |

Conditions still to be met - remain liabilities (see note 17).

EPWP grant is used to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the EPWP guidelines: road maintenance and maintenance of buildings, low traffic volume roads and rural roads, basic services, infrastructure, including water and sewer reticulation, sanitation, pipelines (excluding bulk infrastructure) other economic and social infrastructure, tourism and cultural industries, waste management, parks and beautification, sustainable land based livelihoods, social services programmes and community safety programmes.

### Municipal Systems Improvement Grant

|   |   |           |
|---|---|-----------|
| Current-year receipts                   | - | 930,000   |
| Conditions met - transferred to revenue | - | (930,000) |
|   | - | -         |

Conditions still to be met - remain liabilities (see note 17).

The grant was used to establish and review policies, by laws, internal control systems and preparation of a GRAP compliant Asset Register. Funds for this grant were not received and no communication was received from treasury.

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand   | 2017          | 2016          |
|---|---------------|---------------|
| <b>30. Government grants and subsidies (continued)</b>  |               |               |
| <b>Finance Management Grant</b>   |               |               |
| Current-year receipts   | 1,460,000     | 1,325,000     |
| Conditions met - transferred to revenue   | (1,460,000)   | (1,325,000)   |
|   | -             | -             |
| Conditions still to be met - remain liabilities (see note 17).  |               |               |
| The Finance Management Grant is allocated to municipalities to assist in building in house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld. |               |               |
| <b>Municipal Infrastructure Grant</b>   |               |               |
| Balance unspent at beginning of year  | (1)           | (1)           |
| Current-year receipts   | 361,497,000   | 384,744,000   |
| Conditions met - transferred to revenue   | (361,496,999) | (384,744,000) |
|   | -             | (1)           |
| Conditions still to be met - remain liabilities (see note 17).  |               |               |
| The grant is meant to eradicate basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.  |               |               |
| <b>Department of Transport</b>  |               |               |
| Current-year receipts   | 2,157,000     | 2,100,000     |
| Conditions met - transferred to revenue   | (2,157,000)   | (2,100,000)   |
|   | -             | -             |
| The grant is used to supplement projects for the repair of roads and bridges damaged declared natural disasters.  |               |               |
| Conditions still to be met - remain liabilities (see note 17).  |               |               |
| <b>Local Economic Development Capacity</b>  |               |               |
| Balance unspent at beginning of year  | -             | 300,000       |
| Current-year receipts   | -             | (300,000)     |
|   | -             | -             |
| Conditions still to be met - remain liabilities (see note 17)   |               |               |
| The grant is meant to assist in local economic development and the promotion of tourism. No funds have been withheld .  |               |               |
| <b>Municipal Health</b>   |               |               |
| Balance unspent at beginning of year  | (1)           | 634,847       |
| Conditions met - transferred to revenue   | 1             | (634,848)     |
|   | -             | (1)           |
| Conditions still to be met - remain liabilities (see note 17).  |               |               |
| The grant is a contribution towards addressing health issues in the areas of local municipalities in the district.  |               |               |
| <b>Water Services Infrastructure Grant</b>  |               |               |
| Balance unspent at beginning of year  | 3,934,635     | -             |
| Current-year receipts   | 101,171,000   | 10,000,000    |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand  | 2017          | 2016             |
|--|---------------|------------------|
| <b>30. Government grants and subsidies (continued)</b> |               |                  |
| Conditions met - transferred to revenue                | (101,171,000) | (6,065,365)      |
| Recalled by Treasury                                   | (3,934,635)   | -                |
|  | -             | <b>3,934,635</b> |

Conditions still to be met - remain liabilities (see note 17).

The grant is meant to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability in prioritised district municipalities.

### Water Conservation and Demand Management

|   |   |           |
|---|---|-----------|
| Balance unspent at beginning of year    | - | 279,491   |
| Conditions met - transferred to revenue | - | (279,491) |
|   | - | -         |

Conditions still to be met - remain liabilities (see note 17).

The grant has been allocated to assist the municipality to establish water conservation and demand management systems.

### Sports and Culture

|   |   |           |
|---|---|-----------|
| Balance unspent at beginning of year    | - | 363,818   |
| Conditions met - transferred to revenue | - | (363,818) |
|   | - | -         |

To facilitate sport and recreation in participation and employment in partnership with relevant stakeholders.

Conditions still to be met - remain liabilities (see note 17).

### Disaster Human Settlement Grant

|   |   |           |
|---|---|-----------|
| Current-year receipts                   | - | 500,000   |
| Conditions met - transferred to revenue | - | (500,000) |
|   | - | -         |

This grant is used to rehabilitate and reconstruct municipal infrastructure damaged by disasters and to provide for the immediate release of funds for disaster response.

Conditions still to be met - remain liabilities (see note 17).

### Infrastructure Skills Development Grant

|   |                |             |
|---|----------------|-------------|
| Balance unspent at beginning of year    | 1              | 324,332     |
| Current-year receipts                   | 5,000,000      | 3,000,000   |
| Conditions met - transferred to revenue | (4,594,879)    | (3,324,331) |
|   | <b>405,122</b> | <b>1</b>    |

To recruit unemployed graduates into municipalities to be trained as per the requirements of the relevant statutory councils within the built environment.

Conditions still to be met - remain liabilities (see note 17).

### Regional Bulk Grant

|   |              |              |
|---|--------------|--------------|
| Balance unspent at beginning of year    | 2,636,874    | 545,342      |
| Current-year receipts                   | 80,660,664   | 29,179,773   |
| Conditions met - transferred to revenue | (83,297,538) | (27,088,241) |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

### 30. Government grants and subsidies (continued)

|  |   |           |
|--|---|-----------|
|  | - | 2,636,874 |
|--|---|-----------|

Conditions still to be met - remain liabilities (see note 17).

The grant was used for construction of dams which will provide sustainable water supply to the communities of Umzimvubu and Matatiele local municipality areas. The grant is transferred from DWA.

#### Fire and Emergency

|                                      |   |           |
|--------------------------------------|---|-----------|
| Balance unspent at beginning of year | - | 868,661   |
| Other                                | - | (868,661) |
|                                      | - | -         |

Conditions still to be met - remain liabilities (see note 17).

#### Attic

|   |   |           |
|---|---|-----------|
| Balance unspent at beginning of year    | - | 145,874   |
| Conditions met - transferred to revenue | - | (145,874) |
|   | - | -         |

Conditions still to be met - remain liabilities (see note 17).

The grant is a contribution towards addressing HIV/AIDS issues in the areas of the local municipalities in the district and was used for the purchase of drugs , home based care kits,etc. No funds have been withheld.

#### Rural Housing

|   |             |             |
|---|-------------|-------------|
| Balance unspent at beginning of year    | 1,327,254   | 2,892,553   |
| Conditions met - transferred to revenue | (1,327,254) | (1,565,299) |
|   | -           | 1,327,254   |

To provide specific capital funding for the reduction of rural sanitation backlogs and to target existing households where bulk - dependant services are not viable.

Conditions still to be met - remain liabilities (see note 17).

#### Municipal Water Infrastructure Grant

|   |   |              |
|---|---|--------------|
| Current-year receipts                   | - | 91,071,000   |
| Conditions met - transferred to revenue | - | (91,071,000) |
|   | - | -            |

To facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a water supply service.

Conditions still to be met - remain liabilities (see note 17).

Provide explanations of conditions still to be met and other relevant information.

#### Energy Efficiency

|   |             |              |
|---|-------------|--------------|
| Current-year receipts                   | 8,000,000   | 13,000,000   |
| Conditions met - transferred to revenue | (8,000,000) | (13,000,000) |
|   | -           | -            |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

### 30. Government grants and subsidies (continued)

To provide subsidies to municipalities to implement Energy Efficiency and Demand Side Management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.  
Conditions still to be met - remain liabilities (see note 17).

### 31. Public contributions and donations

|                                    |   |           |
|------------------------------------|---|-----------|
| Public contributions and donations | - | 1,430,028 |
|------------------------------------|---|-----------|

Conditions still to be met - remain liabilities (see note 17)

Provide explanations of conditions still to be met and other relevant information

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand                        | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>32. Employee related costs</b>      |                    |                    |
| Basic                                  | 142,315,656        | 133,275,070        |
| Bonus                                  | 8,212,558          | 7,478,376          |
| Medical aid                            | 6,976,103          | 6,266,944          |
| UIF                                    | 854,999            | 798,547            |
| SDL                                    | 1,632,734          | 1,500,109          |
| Leave pay provision charge             | 10,301,494         | 2,397,617          |
| Defined contribution plans             | 13,727,316         | 12,125,352         |
| Overtime payments                      | 3,790,380          | 4,117,386          |
| Long-service awards                    | 696,143            | 686,354            |
| Transport allowances                   | 13,018,842         | 9,497,800          |
| Housing benefits and allowances        | 7,561,118          | 7,530,059          |
| Standby Allowances                     | 1,217,738          | 1,211,778          |
| Shift Allowances                       | 12,258,233         | 10,615,933         |
| Bargaining Council                     | 43,476             | 40,948             |
| Defined Benefits : Long Service Awards | -                  | 511,587            |
|  | <b>222,606,790</b> | <b>198,053,860</b> |

### Remuneration of Municipal Manager

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                             | 958,112          | 911,055          |
| Car Allowance                                   | 76,902           | 89,231           |
| Annual Bonus                                    | 77,645           | 53,295           |
| Contributions to UIF, Medical and Pension Funds | 322,987          | 528,117          |
| Housing   | 138,423          | -                |
|   | <b>1,574,069</b> | <b>1,581,698</b> |

### Remuneration of Chief Finance Officer

|   |                |                  |
|---|----------------|------------------|
| Annual Remuneration                             | 159,490        | 407,576          |
| Car Allowance                                   | 30,000         | 122,386          |
| Annual Bonus                                    | 9,973          | 88,712           |
| Contributions to UIF, Medical and Pension Funds | -              | 391,705          |
| Other   | -              | 132,029          |
|   | <b>199,463</b> | <b>1,142,408</b> |

There was no substantive CFO until May 2017

### Remuneration of Senior Manager - Community Services

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                             | 929,954          | 884,281          |
| Car Allowance                                   | 137,471          | 133,810          |
| Annual Bonus                                    | 72,020           | 67,399           |
| Contributions to UIF, Medical and Pension Funds | 248,400          | 430,315          |
| Housing   | 136,620          | -                |
|   | <b>1,524,465</b> | <b>1,515,805</b> |

### Remuneration of Senior Manager- Corporate Services

|   |                |                  |
|---|----------------|------------------|
| Annual Remuneration                             | 394,843        | 884,281          |
| Car Allowance                                   | 97,687         | 266,490          |
| Annual Bonus                                    | 73,527         | 67,399           |
| Contributions to UIF, Medical and Pension Funds | 53,315         | 411,505          |
| Housing Allowance                               | 59,340         | 226,946          |
|   | <b>678,712</b> | <b>1,856,621</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

### 32. Employee related costs (continued)

The Corporate Services Manager was released from her duties effective from December 2016.

#### Remuneration of Senior Manager -Technical Services

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                             | 929,954          | 932,359          |
| Car Allowance                                   | 326,579          | 258,500          |
| Annual Bonus                                    | 75,363           | 62,569           |
| Contributions to UIF, Medical and Pension Funds | 162,812          | 307,544          |
| Housing Allowance                               | 33,099           | -                |
|   | <b>1,527,807</b> | <b>1,560,972</b> |

#### Remuneration of Senior Manager -Planning and Economic Development

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                             | 929,951          | 557,377          |
| Car Allowance                                   | 74,641           | 147,359          |
| Annual Bonus                                    | 63,343           | 62,569           |
| Contributions to UIF, Medical and Pension Funds | 179,140          | 47,168           |
| Housing Allowance                               | 268,709          | 288,771          |
|   | <b>1,515,784</b> | <b>1,103,244</b> |

### 33. Remuneration of councillors

|                           |                  |                  |
|---------------------------|------------------|------------------|
| Executive Major           | -                | 484,154          |
| Mayoral Committee Members | -                | 3,041,321        |
| Councillors               | 8,804,757        | 4,765,134        |
| Chief Whip                | -                | 397,036          |
|                           | <b>8,804,757</b> | <b>8,687,645</b> |

#### Remuneration of Councillors

|                   |                  |                  |
|-------------------|------------------|------------------|
| Executive Mayor   | 664,966          | 484,154          |
| Deputy Mayor      | 507,513          | -                |
| Speaker           | 531,971          | -                |
| Chief Whip        | 498,724          | 397,036          |
| Mayoral Committee | 3,299,652        | 3,041,321        |
| Councillors       | 3,301,931        | 4,765,134        |
|                   | <b>8,804,757</b> | <b>8,687,645</b> |

The new Council was pronounced on the 10th of August 2016. Old Councillors received remuneration for one month in July 2017.

### 34. Litigation expenditure

|            |           |            |
|------------|-----------|------------|
| Legal Fees | 2,817,114 | 14,839,908 |
|------------|-----------|------------|

### 35. Depreciation and amortisation

|                               |            |            |
|-------------------------------|------------|------------|
| Property, plant and equipment | 65,905,379 | 58,805,337 |
|-------------------------------|------------|------------|



## Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

### Notes to the Financial Statements

| Figures in Rand                | 2017              | 2016              |
|--------------------------------|-------------------|-------------------|
| <b>36. Finance costs</b>       |                   |                   |
| Trade and other payables       | 88,710            | -                 |
| Finance leases                 | 1,465,024         | -                 |
| Late payment interest          | -                 | 2,748,230         |
| Interest on Loan               | 964,985           | 3,678,577         |
|                                | <b>2,518,719</b>  | <b>6,426,807</b>  |
| <b>37. Debt impairment</b>     |                   |                   |
| Debt impairment                | 6,032,348         | 22,128,617        |
| <b>38. Bulk purchases</b>      |                   |                   |
| Water                          | 6,447,742         | 5,037,621         |
| <b>39. Contracted services</b> |                   |                   |
| Professional Services          | -                 | 5,420,636         |
| Security Services              | 13,414,998        | 10,414,557        |
| Specialist Services            | 7,865,099         | -                 |
| Other Contractors              | 33,356,237        | 15,229,665        |
|                                | <b>54,636,334</b> | <b>31,064,858</b> |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand                    | 2017               | 2016               |
|------------------------------------|--------------------|--------------------|
| <b>40. General expenses</b>        |                    |                    |
| Advertising                        | 1,611,944          | 449,998            |
| Auditors fees                      | 6,878,996          | 7,036,291          |
| Bank charges                       | 755,811            | 978,556            |
| Cleaning                           | 555,654            | 170,062            |
| Consulting and professional fees   | 26,134,765         | -                  |
| Consumables                        | 6,713,662          | 4,085,905          |
| Fines and penalties                | -                  | 1,665,159          |
| Hire                               | -                  | 1,658,588          |
| Insurance                          | 589,802            | 802,288            |
| Community development and training | -                  | 4,020,512          |
| Conferences and seminars           | 11,235             | 13,650             |
| IT expenses                        | -                  | 2,793,066          |
| Marketing                          | 1,742,500          | 1,928,598          |
| Promotions and sponsorships        | -                  | 20,365             |
| Magazines, books and periodicals   | (5,830)            | 100,563            |
| Fuel and oil                       | 3,260,339          | 4,140,412          |
| Placement fees                     | 211,171            | 190,047            |
| Printing and stationery            | 642,326            | 88,157             |
| Protective clothing                | 1,995,715          | 2,483,567          |
| Subscriptions and membership fees  | 102,109            | 2,444              |
| Telephone and fax                  | 7,403,017          | 6,242,977          |
| Training                           | 1,798,489          | 2,443,158          |
| Travel - local                     | 16,129,474         | 12,911,277         |
| Electricity                        | 12,260,578         | 11,447,931         |
| Accommodation                      | 8,964,160          | 4,819,699          |
| Audit Committee                    | 334,312            | 388,313            |
| Catering and Venue Hire            | 9,805,070          | 2,961,592          |
| Environmental Management           | -                  | 25,740             |
| Fire and Rescue Services           | -                  | 317,601            |
| Licence fees                       | 1,254,244          | 2,295,629          |
| Occupational Health and Safety     | -                  | 1,175,663          |
| Other grant expenses               | -                  | 865,376            |
| Other expenses                     | 88,523,184         | 41,557,941         |
|                                    | <b>197,672,727</b> | <b>120,081,125</b> |
| <b>41. Auditors' remuneration</b>  |                    |                    |
| Fees                               | 6,878,996          | 7,036,291          |

## Notes to the Financial Statements

| Figures in Rand                                  | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>42. Cash generated from operations</b>        |                    |                    |
| Surplus  | 331,021,771        | 386,507,607        |
| <b>Adjustments for:</b>                          |                    |                    |
| Depreciation and amortisation                    | 65,905,379         | 58,805,337         |
| Gain on sale of assets and liabilities           | -                  | 4,408,099          |
| Gain on discontinued operations                  | 1,111,536          | -                  |
| Impairment loss on non-current assets            | (184,738)          | (67,314)           |
| Debt impairment                                  | 6,032,348          | 22,128,617         |
| Movements in operating lease assets and accruals | 75,935             | 45,761             |
| Movements in provisions                          | 7,803,854          | 4,573,869          |
| <b>Changes in working capital:</b>               |                    |                    |
| Inventories                                      | (2,590,241)        | 401,063            |
| Receivables from exchange transactions           | (8,933,909)        | 11,061,448         |
| Other receivables from non-exchange transactions | 25,486             | 33,438             |
| Payables from exchange transactions              | 12,323,632         | (50,121,818)       |
| VAT  | (13,919,275)       | 28,175,823         |
| Unspent conditional grants and receipts          | (7,493,641)        | 2,178,693          |
| Payables from Non Exchange Transactions          | (578,230)          | (1,065,543)        |
|  | <b>390,599,907</b> | <b>467,065,080</b> |

## 43. Financial instruments disclosure

### Categories of financial instruments

#### 2017

#### Financial assets

|  | At fair value     | At amortised cost | At cost    | Total             |
|--|-------------------|-------------------|------------|-------------------|
| Unlisted Investments                                   | -                 | -                 | 100        | 100               |
| Long term Investments                                  | 6,615,159         | -                 | -          | 6,615,159         |
| Long Term Receivables                                  | -                 | 244,496           | -          | 244,496           |
| Trade and other receivables from exchange transactions | -                 | 22,148,771        | -          | 22,148,771        |
| Other receivables from non-exchange transactions       | -                 | 1,053,251         | -          | 1,053,251         |
| Cash and cash equivalents                              | 9,893,610         | -                 | -          | 9,893,610         |
| VAT receivable   | 26,111,338        | -                 | -          | 26,111,338        |
|  | <b>42,620,107</b> | <b>23,446,518</b> | <b>100</b> | <b>66,066,725</b> |

#### Financial liabilities

|   | At fair value     | At amortised cost  | Total              |
|---|-------------------|--------------------|--------------------|
| Finance lease Obligation                            | -                 | 8,205,675          | 8,205,675          |
| Long term loan                                      | -                 | 8,301,081          | 8,301,081          |
| Unspent conditional grants                          | -                 | 405,121            | 405,121            |
| Trade and other payables from exchange transactions | -                 | 142,137,787        | 142,137,787        |
| VAT payable   | -                 | 5,916,312          | 5,916,312          |
| Operating lease liability                           | 17,010,109        | 121,696            | 17,131,805         |
|   | <b>17,010,109</b> | <b>165,087,672</b> | <b>182,097,781</b> |

#### 2016

#### Financial assets

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

### 43. Financial instruments disclosure (continued)

|  | At fair value     | At amortised cost | Total             |
|--|-------------------|-------------------|-------------------|
| Loans to economic entities                             | -                 | 100               | 100               |
| Long term Investments                                  | 38,071,818        | -                 | 38,071,818        |
| Long term receivables                                  | -                 | 177,002           | 177,002           |
| Trade and other receivables from exchange transactions | -                 | 17,010,109        | 17,010,109        |
| Other receivables from non-exchange transactions       | -                 | 1,078,737         | 1,078,737         |
| Cash and cash equivalents                              | 36,369,344        | -                 | 36,369,344        |
| VAT receivable   | -                 | 6,306,229         | 6,306,229         |
|  | <b>74,441,162</b> | <b>24,572,177</b> | <b>99,013,339</b> |

### Financial liabilities

|   | At amortised cost  | Total              |
|---|--------------------|--------------------|
| Finance lease obligation                | 18,658,791         | 18,658,791         |
| Long term loan                          | 8,909,864          | 8,909,864          |
| Payables                                | 135,606,919        | 135,606,919        |
| Unspent conditional grant               | 7,898,762          | 7,898,762          |
| Payables from non exchange transactions | 954,688            | 954,688            |
|   | <b>172,029,024</b> | <b>172,029,024</b> |

### 44. Commitments

#### Authorised capital expenditure

#### Approved and Contracted for

|                                 |             |               |
|---------------------------------|-------------|---------------|
| • Property, plant and equipment | 999,237,532 | 1,381,479,454 |
|---------------------------------|-------------|---------------|

#### Total capital commitments

|   |             |               |
|---|-------------|---------------|
| Already contracted for but not provided for | 999,237,532 | 1,381,479,454 |
|---|-------------|---------------|

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

#### Operating leases - Buildings (expense)

#### Minimum lease payments due

|                                     |                  |                  |
|-------------------------------------|------------------|------------------|
| - within one year                   | 300,451          | 163,806          |
| - in second to fifth year inclusive | 1,347,999        | 772,580          |
| - later than five years             | 918,899          | 1,152,157        |
|                                     | <b>2,567,349</b> | <b>2,088,543</b> |

#### Operating Leases Other Equipment

|                         |                |                |
|-------------------------|----------------|----------------|
| Within one year         | 281,043        | 223,118        |
| In second to fifth year | -              | 215,718        |
|                         | <b>281,043</b> | <b>438,836</b> |

Operating lease payments represent rentals payable by the municipality for certain of its office properties. No contingent rent is payable.

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand  | 2017        | 2016        |
|--|-------------|-------------|
| <b>45. Contingencies</b>   |             |             |
| <b>Contingent Liabilities</b>  | <b>2017</b> | <b>2016</b> |
| In 2006 Malukazi Project Managers issued summons for services rendered in the sanitation programme   | 1,914,259   | 1,914,259   |
| In 2008 summons were issued by Affinity Solutions (Pty) Ltd for services rendered. The municipality is defending the matter. A trial date is awaited.  | 313,505     | 313,505     |
| In 2009 Z Mgwebi issued summons for damages emanating from failure to act by the municipality it being alleged the municipality failed to assist her together with her minor children to claim from the Provident fund. The matter is defended by the municipality. The matter is now in pleading stage  | 1,200,000   | 1,200,000   |
| In this matter summons were issued against the municipality for payment of the sum R115 000 for services rendered it being alleged that the service provider was appointed to render certain services. The matter is being defended.   | 115,000     | 115,000     |
| During 2010 J and G Enterprises issued summons for financial damages it being alleged that the municipality stopped them from performing their contract. The matter is being defended by the municipality. The matter is in pleading stage   | 1,541,600   | 1,541,600   |
| In 2010 Zolani Gulwa issued summons against the municipality for breach of contract of employment in that the municipality failed to pay him in terms of the contract. The municipality is defending the matter and it is pending in the high court. The matter is in pleading stage.  | 566,189     | 566,189     |
| Sinezpho Urban and Rural Development claims against the municipality for alleged termination of contract. The municipality is defending the matter   | 1,544,713   | 1,544,713   |
| ANDA was mandated by council to mobilise funding for ANDM water infrastructure project. ANDA then entered into an agreement with Gestalt. Gestalt has initiated legal proceedings against ANDM and ANDA. The ANDM legal team is disputing any and all Gestalt claim. The above is disclosed in the financial statements without prejudice.   | 10,899,400  | 10,899,400  |
| During 2007 Jack Zulu issued summons against the municipality for specific performance, it being alleged that he was appointed by the municipality to render services at Umzimnkulu Area (previous dispensation) and the municipality failed to pay him in terms of the contract. The municipality denies that the services were rendered. Pleadings closed and a trial date is awaited. | 17,250      | 17,250      |
| During 2008 P Mabandla issued summons against the municipality for goods supplied and services rendered to the municipality at the latter's special instance and request. The municipality denies this. Pleadings closed and the trial date is awaited   | 6,572       | 6,572       |
| In 2008 M J Phirimane issued summons against the municipality for services rendered. The municipality is defending the matter. A trial date is awaited.  | 28,200      | 28,200      |
| Rob Potow irrigation issued summons against the municipality for failure to pay for material supplied in terms of a verbal agreement. The municipality is defending the matter. The outcome is not certain at this stage.  | 24,522      | 24,522      |
| Ernst Zellhuber vs ANDM, alleged non payment in lieu of financial services rendered  | -           | 89,537      |
| Sihlangane financial services cc vs ANDM, alleged non payment in lieu of financial services  | -           | 235,585     |
| SLK Security Services and cleaning vs ANDM, alleged breach of contract in lieu of security services rendered.  | -           | 686,619     |
| Ikamva Lomutsa Nojola vs ANDM, Alleged breach of contract in lieu of supply and delivery branding material   | -           | 40,072      |
| Hlumie Security vs ANDM, alleged breach of contract in lieu of security services   | -           | 577,500     |
| M Magigaba Inc vs ANDM, alleged non payment of money in lieu of services rendered  | -           | 106,682     |
| Alleged failure to pay for a crawler sprinkler   | 30,700      | -           |
| Amangcuse Security and cleaning VS ANDM  | 705,346     | -           |
| Alleged non payment in lieu of supply and delivery of tents, toilets, and heaters etc.   | 1,289,050   | -           |
| Letter of demand received in lieu of specialist consultancy services rendered ANDM vs Moko Corporate   | 375,927     | -           |
| Ayanda Mafunda vs ANDM   | 16,508      | -           |
| ANDM vs Mafulo Investments   | 200,000     | -           |
| Supa Brick Tile vs ANDM  | 127,782     | -           |
| ANDM vs ANDMv Ronnies Motors   | 250,000     | -           |
| ANDM vs PDNA   | 68,400      | -           |
| ANDM vs Don Boti   | 25,187      | -           |
| Natal Joint Municipal Pension Fund vs ANDM   | 147,937     | -           |
| Eugene Nel and Anand Jayraj v ANDM   | 2,990,117   | -           |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand                      | 2017              | 2016              |
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| <b>45. Contingencies (continued)</b> |                   |                   |
| Sikhokele Maphukutha VS ANDM         | 6,600,000         | -                 |
| Uvikela Security vs ANDM             | 333,192           | -                 |
| ANDM vs Arule Security               | 1,392,679         | -                 |
| ECDC vs ADN                          | 114,240           | -                 |
|                                      | <b>32,838,275</b> | <b>19,907,205</b> |

### Contingent assets

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 51, civil proceedings have commenced against the employees concerned to recover an amount of -. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

|   | 2017         | 2016           |
|---|--------------|----------------|
| ANDM vs Sinothando Mtshengu-failure to pay back loans advanced to employee  | -            | 62,054         |
| ANDM vs Elvin Mkwando Chirwa-failure to pay back loans advanced   | -            | 71,731         |
| The municipality has instituted a claim against MP Civils for alleged failure to deliver a crawler sprinkler purchased in terms of a verbal contract. Settlement proposals are in the pipeline and the outcome of the case is still not certain | -            | 30,700         |
| ANDM vs Vukile Selonyane- Default of payment in lieu of loans advanced to an employee   | -            | 21,322         |
| Default on Loan payment   | -            | 17,000         |
| Accident claim  | -            | 6,907          |
| ANDM vs Bulelani Airlington Mabi-Claim arising from a motor vehicle accident  | -            | 1,079          |
| ANDM vs Thanduxolo Malusi-Default of payment in lieu of loans advanced to an employee   | -            | 84,328         |
| ANDM vs Suti - Claim arising from a motor vehicle accident  | -            | 20,987         |
| ANDM vs N Magagu  | 6,907        | -              |
| ANDM vs Bmambi  | 1,097        | 1,097          |
|   | <b>8,004</b> | <b>317,205</b> |

### 46. Related parties

All Related Part transactions are conducted at arms length, unless stated otherwise.

Declarations of interests were made by councillors and or management of the municipality of any relationship with business during the year.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004. Loans, together with conditions thereof, granted prior to this date are disclosed in note 7 to the Annual Financial Statements.

The municipality funded the Alfred Nzo Development Agency (ANDA) which is a wholly owned agency. The following details of the grants are provided

| Grant to ANDA  | Grants Issued<br>2017 | Grants Issued<br>2016 | Closing<br>balance |
|--|-----------------------|-----------------------|--------------------|
| Grant Issued   | 19,580,694            | 18,459,856            | 38,040,550         |
| <b>Compensation to accounting officer and other key management</b> |                       |                       |                    |
| Short-term employee benefits                                       |                       | 9,463,836             | 8,565,600          |
| Defined contribution plans   |                       | 27,246,763            | 30,070,475         |
|  |                       | <b>36,710,599</b>     | <b>38,636,075</b>  |

### 47. Prior period errors

Prior period has been amended to account for prior period errors

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
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|-----------------|------|------|

### 47. Prior period errors (continued)

Below is a summary of the total effect that the prior errors, changes in accounting policies and reclassification of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual error with the amounts involved

The correction of the error(s) results in adjustments as follows:

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

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### 47. Prior period errors (continued)

| Statement of Financial Performance for the year ended 2016 | Balance as previously reported | Change in Accounting policy | Prior period error | Reclassified | Restated Balance   |
|--|--------------------------------|-----------------------------|--------------------|--------------|--------------------|
| Service charges  | 25,668,244                     | -                           | (499,907)          | -            | 25,168,337         |
| Rental of facilities                                       | 233,981                        | -                           | -                  | -            | 233,981            |
| Agency services  | 19,915                         | -                           | -                  | -            | 19,915             |
| Other income   | 3,208,442                      | -                           | 1,035,000          | -            | 4,243,442          |
| Interest received - investment                             | 11,871,083                     | -                           | (1,716,272)        | -            | 10,154,811         |
| Government grants and subsidies                            | 902,768,510                    | -                           | 634,847            | -            | 903,403,357        |
| Public contributions and donations                         | 1,430,028                      | -                           | -                  | -            | 1,430,028          |
| Revenue Total  | 945,200,203                    | -                           | (546,332)          | -            | 944,653,871        |
| General Expenses   | (119,100,778)                  | -                           | (980,347)          | -            | (120,081,125)      |
| Employee Related Costs                                     | (198,473,196)                  | -                           | 419,336            | -            | (198,053,860)      |
| Remuneration of Councillors                                | (8,687,645)                    | -                           | -                  | -            | (8,687,645)        |
| Litigation Expenditure                                     | (14,071,138)                   | -                           | (768,770)          | -            | (14,839,908)       |
| Debt Impairment  | (22,128,617)                   | -                           | -                  | -            | (22,128,617)       |
| Depreciation and amortisation                              | (58,862,137)                   | -                           | 56,800             | -            | (58,805,337)       |
| Finance Costs  | (6,529,442)                    | -                           | 102,635            | -            | (6,426,807)        |
| Repairs and maintenance                                    | (42,865,055)                   | -                           | (1,663,932)        | -            | (44,528,987)       |
| Bulk purchases   | (5,349,607)                    | -                           | 311,986            | -            | (5,037,621)        |
| Contracted services  | (31,033,569)                   | -                           | (31,289)           | -            | (31,064,858)       |
| Transfers and subsidies                                    | (43,906,230)                   | -                           | (12,174)           | -            | (43,918,404)       |
| Gain or loss on disposal                                   | (4,408,099)                    | -                           | -                  | -            | (4,408,099)        |
| Actuarial gains or loss                                    | 67,314                         | -                           | -                  | -            | 67,314             |
| Operating leases   | -                              | -                           | (232,310)          | -            | (232,310)          |
| <b>Surplus for the year</b>                                | <b>389,852,004</b>             | <b>-</b>                    | <b>(3,344,397)</b> | <b>-</b>     | <b>386,507,607</b> |

### Statement of Financial Position as at 30 June 2016

|  | Balances as previously reported | Prior period errors | Reclassified | Restated Balance   |
|--|---------------------------------|---------------------|--------------|--------------------|
| Inventories                                  | 5,792,979                       | (244,199)           | -            | 5,548,780          |
| Receivables from exchange transactions       | 30,724,053                      | (13,713,944)        | -            | 17,010,109         |
| Receivables from non- exchange transactions  | 1,078,737                       | -                   | -            | 1,078,737          |
| VAT Receivable                               | 6,172,002                       | 134,227             | -            | 6,306,229          |
| Cash and cash equivalents                    | 36,375,313                      | (5,969)             | -            | 36,369,344         |
| Property Plant and Equipment                 | 2,812,293,995                   | (2,276,918)         | -            | 2,809,997,077      |
| Intangible Assets                            | 3,117,620                       | 381,394             | -            | 3,499,014          |
| Heritage Assets                              | 131,100                         | -                   | -            | 131,100            |
| Investments in Controlled Entities           | 100                             | -                   | -            | 100                |
| Long term Receivables                        | 115,463                         | 61,539              | -            | 177,002            |
| Investments                                  | 39,788,091                      | (1,716,273)         | -            | 38,071,818         |
| Subtotal                                     | 2,935,589,453                   | (17,380,143)        | -            | 2,918,209,310      |
| Finance Lease Obligation                     | (10,585,841)                    | 120,306             | -            | (10,465,535)       |
| Operating lease                              | -                               | (45,761)            | -            | (45,761)           |
| Payables from exchange transactions          | (150,277,711)                   | 534,973             | 14,135,825   | (135,606,913)      |
| Unspent Conditional Grants                   | (8,533,610)                     | 634,848             | -            | (7,898,762)        |
| Provisions                                   | (1,389,405)                     | -                   | (14,135,825) | (15,525,230)       |
| Current Portion of Long Term Loan            | (839,564)                       | -                   | -            | (839,564)          |
| Payables from non exchange from transactions | (1,133,608)                     | -                   | -            | (1,133,608)        |
| Finance Lease obligation                     | (5,750,980)                     | (2,442,276)         | -            | (8,193,256)        |
| Provisions                                   | (5,895,707)                     | -                   | -            | (5,895,707)        |
| Long Term Loan                               | (8,070,300)                     | -                   | -            | (8,070,300)        |
| Government Grants reserve                    | (1,517,942,029)                 | -                   | -            | (1,517,942,029)    |
| Opening Accumulated surplus                  | (835,318,694)                   | 15,054,736          | -            | (820,263,958)      |
|  | <b>389,852,004</b>              | <b>(3,523,317)</b>  | <b>-</b>     | <b>386,328,687</b> |



# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand                            | 2017              | 2016 |
|--|-------------------|------|
| <b>47. Prior period errors (continued)</b> |                   |      |
| <b>Statement of financial position</b>     | -                 | -    |
| <b>Accumulated Surplus</b>                 |                   |      |
| Finance lease adjustments                  | 1,695,546         |      |
| 2014/15 Unrecorded expenses                | 162,696           |      |
| Correction of 2014/15 invalid accruals     | (1,458,715)       |      |
| Correction of asset balances misstated     | 2,623,267         |      |
| Correction of retention balances misstated | (1,225,544)       |      |
| Debtors adjustment                         | 13,175,787        |      |
| Depreciation of unbundled assets           | 81,699            |      |
| Inventory adjustment                       | 819,072           |      |
| Roll over error                            | (916,404)         |      |
|  | <b>14,957,404</b> |      |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

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### 47. Prior period errors (continued)

#### Statement of Financial Performance

##### Service charges

A reconciliation of the service charges revenue in the general ledger to the revenue per the billing system for 2015/16 was performed and this picked some processing errors when the journals were being posted into the general ledger. It was discovered that some adjustments done in sebatla which were made to reduce the revenue had been done the opposite way in the general ledger. As a result revenue for water had been overstated by R431 610.7 while sanitation revenue had been overstated by R11 986. This gave rise to an overall misstatement of R499 907.

##### Interest received

A bank confirmation of the Investec Investment for the municipality done at 30 June 2016 revealed that the municipality had overstated its investment by R1 716 272. This was not adjusted before the finalisation of the 2015/16 financial statements leading to an audit exception. The exception has thus been addressed by the adjustment of the investment to tie to the confirmed amount. The result of this is that the interest income for 2015/16 was adjusted downwards by R1 716 272.

##### Government grants & subsidies

During the year 2015/16, R634 847 was spent on the remuneration of the health personnel in accordance with the provisions of the municipal health grant. However, the amount spent was not recognised as revenue in the period resulting in the amount remaining as an unspent conditional grant. This has now been corrected resulting in the grant income increasing by R634 847.

##### Other Income

Two contractors failed to deliver on the projects that they were working on and were fully penalised in accordance with the provisions of the contracts. The penalties were deducted from the money due to the contractors but the income to the municipality was not disclosed as income on the AFS and instead it had been offset against the project cost. This has been corrected by realising the penalties as income. The amount involved is R1 035 000.

##### Employee related cost

A review of the 2015/16 accruals revealed that salaries for fire fighters for the month of June 2016 amounting to R355 640 had been accrued for at year end despite them having been paid in June 2016. The accrual was thus reversed to correct the mistake. Also Managers salaries for the year ending June 2016 had been overpaid by R63 000 and thus these were corrected by raising them as debtors while reducing the salaries bill.

##### Litigation Expenses

A search for unrecorded liabilities was conducted to ensure completeness of the payables for the municipality at 30 June 2016. The search covered 3 months from July to September 2016. The results showed that some liabilities for the year ended 30 June 2016 had not been accrued for at year end. As a result these had to be accrued for and the effect of this was that legal costs had to be adjusted by R768 770.

##### Finance costs

Finance lease costs for the year were incorrectly computed as a result of a wrong NPV of the minimum lease payments figure. The lease liability figure and the value of the underlying assets were adjusted and this resulted in the finance lease costs being adjusted downwards by R102 635.

##### Depreciation

Depreciation expenses were revised downwards by 56 800 as a result of correction of asset costs following asset verification exercise.

##### Repairs and maintenance

A search for unrecorded liabilities done to check the completeness of the recorded liabilities at 30 June 2016 revealed that about R19 million worth of liabilities had not been recorded. These were then raised as accruals and the effect of this was to increase the repairs and maintenance previously recorded by R3 261 252. However, it was also discovered that computer equipment of 1 597 319.97 was incorrectly charged to repairs vote instead of the asset vote. This was corrected by crediting the repairs vote. As a result the repairs and maintenance costs were restated by 1 663 932.

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
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|-----------------|------|------|

### 47. Prior period errors (continued)

#### General expenses

Electricity costs of 263 000 were not accrued for at year end, Security costs of 120 000 were not accrued for, accommodation costs amounting to 250 000 were not accrued for, as well as 167 186 due to Nyalambisa services were also not accrued for at year end. These errors were picked and corrected. The total adjustment to general expenses amounted to R980 347

#### Bulk purchases

Invoices due to DWA for water supplies were overstated during the period under review. The overstatement was only picked after the financials had been finalised. Credit notes were passed to correct the mistake and the result was a downward adjustment of the initial water cost by R311 986

### Statement of Financial Position

#### Cash and cash equivalents

R5 969 relating to receivables was misposted to ISDG call account resulting in cash and cash equivalents being overstated by R5 969 and debtors by the same amount. This has been corrected hence the movement.

#### Receivables from exchange transactions

Both Water and Sanitation debtors were misstated as a result of processing error on the capturing of revenue figures as per Sebata into Munsoft( GL). Reconciliations done after finalisation of the June 2015/16 revealed these and thus correcting journals were passed. Water Debtors were overstated by R438 343 while sanitation debtors were overstated by 11 986. In addition, processing errors had also resulted in the debtors account being credit with amounts exclusive of VAT thus understating debtors while VAT was overstated. In addition, water debtors were also misstated by 13 168 288.57 arising from billing errors in the previous years which had not been corrected. These adjustments totalled R13 713 944

#### Intangible assets

Adjustments were done to the intangible assets vote to correct the following items 1) Intangible assets costs were in 2015 wrongly charged to operational vote instead of intangible vote the cost involved was 253 436.85, 2) Operation expense for 2014/15 amounting to 99 794 had been incorrectly posted to intangible assets vote. 3) Accumulated depreciation for intangible assets had been overstated by 383 738.32, 4) Operational cost for GIS upgrade had been incorrectly charged to intangible assets. The overall effect of these adjustments to the intangible assets was R299 074

#### VAT Receivable

Vat receivable was adjusted by R134 227 after a processing error on debtors receipts was picked.

#### Inventory

Inventory for the Mt Ayliff warehouse was discovered to be overstated by R 244 199 and was accordingly adjusted by the same amount.

#### Investments

The carrying value of the municipality's investment with Investec was overstated by R 1 716 272. The carrying value was higher than the bank confirmation but no adjustment was done at year end. The investment has thus been written down by R1 716 272.

### Property, plant & Equipment

| Description                            | Misstatement |
|--|--------------|
| Correction of accumulated depreciation | 740,638      |
| Correction of retentions               | -2,297,015   |
| Search for unrecorded liabilities      | 11,321,723   |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

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### 47. Prior period errors (continued)

|                            |                  |
|----------------------------|------------------|
| Asset verification results | -3,763,211       |
|                            | <b>4,520,858</b> |

### Payables from exchange transactions

#### Accruals

In the 2015-2016 financial year there were various misstatements to accruals as summarised below:

| <u>Description</u>                  | <u>Misstatement</u> |
|-------------------------------------|---------------------|
| Accruals not raised completely      | 20 489 676.42       |
| Invalid accruals incorrectly raised | -1,650,576.93       |
| VAT on accruals not reversed        | -242,776.82         |
| Invalid accruals incorrectly raised | -1,068,593.00       |
| Total                               | 17 527 729.67       |

#### Creditors Control

A review of the creditors listing for the year ended 30 June 2016 was done and the review revealed a number of creditors had overstated balances. As a result credits notes were passed to adjust the balances. The creditors control account balance was thus written down by R17 203 472

#### Retentions

A review of the retentions list for the year ended 30 June 2016 was done. The review revealed that a number of retentions were not valid. The projects concerned had been completed and when the retentions were released they were misposted to either operational votes or asset votes. In addition surity deductions were not accounted for on some projects done in 2016. These have been adjusted. The overall adjustment for these comes to R2 351 536

### Unspent conditional grants

Expenses incurred through grant funding were all not completely included in grant income recognition. This resulted in understatement of the Grant income for Municipal Health and overstatement of unspent grant amount by R634 848.

#### Operating lease liability

The municipality leases office space at Matatiele and Cerdaville for which they have lease agreements for up to five years. In addition, the municipality also leases radio equipment for disaster management. The lease agreements for the three leases provide for annual escalation. GRAP 13, which deals with leases, requires that the lease payments be charged on a straight line basis over the lease period. This was not done for the prior period hence an adjustment has been done. The total lease liability arising from the adjustment for 2016 is R45 761

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

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### 47. Prior period errors (continued)

#### Finance lease liability

A recomputation of the finance lease liability revealed that the use of a wrong prime interest rate resulted in a wrong lease liability being arrived at. As a result the lease liability was adjusted upwards by R2 442 276

### 48. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument                       | 2017       | 2016       |
|--|------------|------------|
| Long Term Investments                      | 6,615,159  | 38,071,818 |
| Long Term Receivables                      | 244,496    | 177,002    |
| Receivables from Exchange Transactions     | 39,678,108 | 30,724,053 |
| Receivables from Non Exchange Transactions | 2,296,072  | 1,078,737  |
| Cash and Cash Equivalents                  | 10,247,555 | 36,369,344 |
| Vat Receivable                             | 25,767,006 | 6,176,164  |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

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### 48. Risk management (continued)

#### Market risk

##### Interest rate risk

Interest Rate Risk is the risk that the fair value of future cashflows associated with a financial instruments will fluctuate in amount as a result of market interest changes.

Financial Assets and liabilities that are sensitive to interest rate risk are cash equivalents, investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentrations of interest risk consist mainly of fixed deposits investments, long term debtors, other debtors, short term investments deposits and bank and cash balances.

The municipality limits its counterpart exposures from its money market investments operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterpart is managed by setting percentage exposure limits, which are included in the municipality's investments policy. These limits are reviewed periodically by the Chief Financial Officer and authorised by the council.

Consumer deposits comprise of a large number of rate payers, dispersed across different industries and geographical areas. Periodic credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by levying of penalty charges, demand for payment, "restriction services and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Councils Credit Control and Debt Collection Policy

Long term receivables and other debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment/impairment, where applicable

### 49. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the treasury will continue to provide funding for the ongoing operations for the municipality. The municipality is facing a number of financial risks that negatively impact its ability to sustain its current level of operations in the near future, before taking into account governments grants. The key financial risks identified include:

- an inability to pay creditors within due dates
- negative key financial ratios
- net current liability was realised

The actions taken by management to mitigate the impact of these risks include:

- Management maintains detailed financial plans and manages working capital elements as necessary.
- Budget controls are in place to ensure that over- expenditure is eliminated
- The treasury will continue to provide funding to the municipality in the foreseeable future.
- Management are also investigating alternative funding sources to supplement government funding
- Council of the municipality has approved cost cutting measures in line with circular 82 of the MFMA wherein cost drivers like catering is not done at all, accommodation limited to R1 200 per month, travelling minimised to 1 000kms per month per person.
- The municipality has also started investing funds that will not be used immediately. The municipal budget has also been reduced in order to accommodate the accruals for the previous years.

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

| Figures in Rand   | 2017               | 2016               |
|---|--------------------|--------------------|
| <b>50. Unauthorised expenditure</b>   |                    |                    |
| Unauthorised expenditure  | 306,497,280        | 197,272,371        |
| Current year additions  | -                  | 109,224,909        |
|   | <b>306,497,280</b> | <b>306,497,280</b> |
| <b>51. Fruitless and wasteful expenditure</b>                                 |                    |                    |
| Fruitless and wasteful expenditure  | 16,943,541         | 643,083            |
| Current year additions  | 112,575            | 16,300,458         |
|   | <b>17,056,116</b>  | <b>16,943,541</b>  |
| <b>Incident</b>   |                    |                    |
| Interest Paid to Eskom  | 81,066             | 52,241             |
| Interest Paid to Telkom   | 5,669              | 36,560             |
| Interest Paid to Umngeni Water  | 358                | 49                 |
| Interest Paid to Rheochem   | -                  | 6,816              |
| DBSA arrear interest  | 4,739              | -                  |
| National Health Laboratory  | 536                | -                  |
| Natal Retirement  | 363                | -                  |
| MCPF  | 211                | -                  |
| Cape Joint  | 727                | -                  |
| Pension   | 74                 | -                  |
| Acting Allowance - N R Xolo   | 79,631             | -                  |
| Acting Allowance - M Matubatuba   | 205,270            | -                  |
|   | <b>378,644</b>     | <b>95,666</b>      |
| <b>52. Irregular expenditure</b>  |                    |                    |
| Opening balance   | 591,282,434        | 398,629,051        |
| Add: Irregular Expenditure - current year                                     | 2,044,500          | 192,653,383        |
|   | <b>593,326,934</b> | <b>591,282,434</b> |
| <b>53. Additional disclosure in terms of Municipal Finance Management Act</b> |                    |                    |
| <b>Contributions to organised local government (SALGA fees)</b>               |                    |                    |
| Current year subscription / fee   | 1,665,994          | 1,182,599          |
| Amount paid - current year  | (1,665,994)        | (1,182,599)        |
|   | -                  | -                  |
| <b>Audit fees</b>   |                    |                    |
| Current year subscription / fee   | 7,624,201          | 7,024,294          |
| Amount paid - current year  | (5,970,410)        | (7,024,294)        |
|   | <b>1,653,791</b>   | -                  |
| <b>PAYE and UIF</b>   |                    |                    |
| Opening balance   | 1,998,606          | -                  |
| Current year subscription / fee   | 34,223,397         | 29,047,482         |
| Amount paid - current year  | (36,222,003)       | (27,048,876)       |
|   | -                  | <b>1,998,606</b>   |

# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

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### 53. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Pension and Medical Aid Deductions

|                                 |              |                  |
|---------------------------------|--------------|------------------|
| Opening balance                 | 2,552,400    | -                |
| Current year subscription / fee | 33,024,656   | 28,835,981       |
| Amount paid - current year      | (35,577,056) | (26,283,581)     |
|                                 | -            | <b>2,552,400</b> |

#### VAT

|                |                   |                  |
|----------------|-------------------|------------------|
| VAT receivable | 26,111,338        | 6,306,229        |
| VAT payable    | 5,916,312         | -                |
|                | <b>32,027,650</b> | <b>6,306,229</b> |

VAT output payables and VAT input receivables are shown in note 14.

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

No Councillors were in arrears as at 30 June 2017



# Alfred Nzo District Municipality

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

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### 53. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

#### Incident

|  |                  |          |
|--|------------------|----------|
| Inkonjane Community Radio- Impractical to obtain three quotes          | 18,972           | -        |
| Alfred Nzo Community Radi- Impractical to obtain three quotes          | 14,000           | -        |
| Abundant Media- Impractical to obtain three quotes                     | 26,095           | -        |
| Abundant Media- Impractical to obtain three quotes                     | 26,095           | -        |
| Abundant Media- Impractical to obtain three quotes                     | 26,095           | -        |
| Thekwini Toyota Kokstad-Sole service provider                          | 6,967            | -        |
| Abundant Media- Impractical to obtain three quotes                     | 26,094           | -        |
| Thekwini Toyota Kokstad- Sole service provider                         | 8,843            | -        |
| Union Motors- Original dealer  | 26,650           | -        |
| Alfred Nzo Community Radio- Impractical to obtain three quotes         | 26,000           | -        |
| Bates and Johnstone Motors- Original dealer                            | 9,125            | -        |
| Msukeni Development- Only palce that could accomodate 25 people        | 23,100           | -        |
| Sage VIP- Impractical to obatin three quotes                           | 21,842           | -        |
| Thekwini Toyota Kokstad- Only service provider                         | 12,513           | -        |
| Thekwini Toyota Kokstad- Only service provider                         | 14,877           | -        |
| C& S Husqvarna- Only manufacturer                                      | 25,829           | -        |
| Veri Source Consulting- Only service provider                          | 9,965            | -        |
| Inkonjane Community Radio- Impractical to obtain three quotes          | 29,000           | -        |
| Alfred Nzo Community Radio - Impractical to obtain three quotes        | 14,000           | -        |
| Inkonjane Community Radio- Impractical to obtain three quotes          | 18,972           | -        |
| Sage VIP- Only payroll used  | 25,910           | -        |
| Veri Source Consulting- Only service provider                          | 2,583            | -        |
| Sage VIP-Only payroll used   | 26,067           | -        |
| Sage VIP- Only payroll system used                                     | 33,143           | -        |
| Johnstone's Kokstad- Only dealership                                   | 3,915            | -        |
| SAICE- only provider of training                                       | 45,000           | -        |
| Sage VIP- sole supplier of payslip stationery                          | 9,595            | -        |
| Sage VIP- only payroll system used                                     | 30,370           | -        |
| Lwanduthando Investments- Emergency                                    | 32,400           | -        |
| SAICE- Impractical to obtain three quotes                              | 45,000           | -        |
| Alfred Nzo Community Radio Station- impractical to obtain three quotes | 22,807           | -        |
| Inkonjane Community Radio- Impractical to obtain three quotes          | 29,000           | -        |
| Thwekwin Toyota Kokstad- Only dealership                               | 10,700           | -        |
| Alfred Nzo Community Radio- Impractical to obtain three quotes         | 26,000           | -        |
| Inkonjane Community Radio  | 29,000           | -        |
| Sage VIP- Only payroll used  | 13,353           | -        |
| Alfred Nzo Community Radio- Impractical to obtain three quotes         | 10,500           | -        |
| Times Media Eastern Cape-Only provincial newspaper                     | 14,546           | -        |
| Johnstone Kokstad- Impractical to obtain three quotes                  | 5,847            | -        |
| Mortimer Toyota Matatiele- only service provider                       | 7,503            | -        |
| Inkonjane Community Radio- impractical to obatin three quotes          | 14,500           | -        |
| Disaster Management Institute of SA- only institute in SA              | 63,400           | -        |
| Inkonjane Community Radio- impractical to obtain three quotes          | 18,972           | -        |
| Lungi Africa Quantity surveyors- only two quotes                       | 195,000          | -        |
| Action IT-Only one quote received                                      | 197,391          | -        |
| RJN Consulting-only one quote received                                 | 197,000          | -        |
| Lungi Africa Quantity surveyors- two quotes received                   | 198,902          | -        |
| Tshangana Attorneys- one quote received                                | 198,500          | -        |
| Isanqola Construction-one quote received                               | 302,000          | -        |
| Isanqola Construction - one quote received                             | 429,500          | -        |
|  | <b>2,623,438</b> | <b>-</b> |